

UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:
SACCHARIN FROM CHINA

)
) Investigation No.:
) 731-TA-1013 (Preliminary)

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Thursday,
August 1, 2002

Room No. 101
U. S. International
Trade Commission
500 E Street, S.W.
Washington, D.C.

The preliminary conference commenced, pursuant to Notice, at 9:30 a.m., at the United States International Trade Commission, LYNN FEATHERSTONE, Director of Investigations, presiding.

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On behalf of the International Trade Commission:

Staff:

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P R O C E E D I N G S

(9:30 a.m.)

MR. FEATHERSTONE: Good morning. Welcome to the United States International Trade Commission's conference in connection with the preliminary phase of antidumping investigation Nos. 731-TA-1013 concerning Saccharin From China.

My name is Lynn Featherstone. I'm the Commission's Director of Investigations, and I'll preside at this conference. Among those present from the Commission staff are Bonnie Noreen, the supervisory investigator; D.J. Na, the investigator; Rhonda Hughes, the attorney/advisor; Josh Levy, the economist; Eric Land, the industry analyst; and Chand Mehta, the financial analyst and auditor.

The purpose of this conference is to allow you to present to the Commission through the staff your views with respect to the subject matter of the investigation in order to assist the Commission in determining whether there is a reasonable indication that an industry in the United States is materially injured or threatened with material injury or that the establishment of an industry in the United States is materially retarded by reason of imports of the merchandise which is the subject of the investigation.

Individuals speaking in support of and in opposition to the petition have each been allocated one hour

1 to present their views. Those in support of the petition
2 will speak first. The chair may ask questions of speakers
3 either during or after their statements. However, no cross-
4 examination by parties or questions to opposing speakers
5 will be permitted.

6 At the conclusion of the statements from both
7 sides, each side will be given ten minutes to rebut any
8 opposing statements, suggest issues on which the Commission
9 should focus in analyzing data received during the course of
10 the investigation and make concluding remarks.

11 This conference is being transcribed, and the
12 transcript will be placed in the public record of the
13 investigation. Accordingly, speakers are reminded not to
14 refer in your remarks to business proprietary information
15 and to speak directly into the microphones. Copies of the
16 transcript may be ordered by filling out a form which is
17 available from the stenographer. This proceeding is also
18 being shown within the building on closed-circuit
19 television.

20 You may submit documents or exhibits during the
21 course of your presentations. However, we will not accept
22 materials tendered as business proprietary. All information
23 for which such treatment is requested must be submitted to
24 the Secretary in accordance with Commission Rule 201.6.

25 Any documents that are letter size and copiable

1 will be accepted as conference exhibits and incorporated
2 into the record of the investigation as an attachment to the
3 transcript. Other documents that you would like
4 incorporated into the record of the investigation should be
5 submitted as or with your post-conference briefs.

6 Speakers will not be sworn in. However, you are
7 reminded of the applicability of 18 USC 1001 to false or
8 misleading statements and to the fact that the record of
9 this proceeding may be subject to court review if there is
10 an appeal. Finally, we ask that you state your names and
11 affiliations for the record before beginning your
12 presentations.

13 Are there any questions? If not, welcome, Mr.
14 Hartquist. Please proceed.

15 MR. HARTQUIST: Thank you, Mr. Featherstone. Good
16 morning to you and to the staff of the Commission. I'm
17 David A. Hartquist of the law firm of Collier Shannon Scott
18 representing the Petitioner, PMC Specialties Group. We
19 appreciate the opportunity to appear before you to discuss
20 the issue of imports from China.

21 Before I begin with a brief overview of the facts
22 of the case, I'd like to introduce the industry members to
23 you this morning. Gordon McCullough, executive vice-
24 president for PMC, will testify first about the current
25 condition of the company. Dr. Ronald L. Pearson, Research &

1 Development manager for PMC, will discuss the production
2 process used to make saccharin and other issues regarding
3 the physical and chemical properties of the product.

4 Brad Hudgens of Georgetown Economic Services will
5 then review the current import and pricing trends of the
6 Chinese product in comparison with PMC's sales, and I will
7 conclude with a brief review of the like product factors.

8 As the staff here is aware, an antidumping
9 investigation was conducted by the Commission in 1994
10 covering imports of saccharin from China, and a negative
11 determination was reached in that investigation. Since that
12 time, however, there has been a dramatic shift in the
13 conditions of competition, and these changes make it quite
14 clear that PMC is now experiencing material injury as a
15 result of the Chinese imports.

16 Mr. McCullough will go over the difficulties
17 currently being experienced by the company in greater
18 detail, but I'd like to just highlight some of the most
19 important changes that have occurred since the prior
20 investigation.

21 First and foremost, the volume of saccharin
22 imports from China has increased drastically both in
23 absolute and relative terms. Mr. Hudgens will discuss in
24 more detail later that the current imports show a tremendous
25 growth in Chinese imports over the last few years, and that

1 growth has continued in recent months.

2 In 1993, the last year of the prior investigation,
3 Chinese saccharin imports were less than 500,000 pounds and
4 accounted for about 20 percent of all imports. By 2001,
5 however, imports from China had grown to over 2.5 million
6 pounds, about 500 percent growth, and accounted for more
7 than 60 percent of total imports.

8 During the prior investigation, Chinese imports
9 were an extremely small part of the U.S. market, holding
10 about ten to 15 percent of the market, while imports from
11 other countries, particularly Korea, were much greater. At
12 that time, PMC had maintained itself more than 60 percent as
13 the sole domestic producer of the product.

14 By 2001 and through the interim period in 2002, we
15 see a very dramatic shift. Last year, the Chinese share had
16 reached historical levels, directly displacing PMC's share
17 of the market which had dropped an equivalent amount. In
18 other words, what the Chinese took PMC lost.

19 Additionally, other imports are no longer as
20 significant as Chinese imports. Again, these import
21 volumes, coupled with the shifting of market shares, produce
22 a clear picture of the difference between the situation
23 before in the prior investigation and the current situation.

24 Another factor that has changed significantly
25 since the prior case involves the pricing trends and the

1 nature of competition between the Chinese imports and PMC.
2 During the prior case, the Chinese were just beginning to
3 enter the market, and PMC faced the greatest head-to-head
4 pricing competition with Korean imports.

5 Now the data show a completely different picture.
6 The direct head-to-head price competition comes from the
7 Chinese product, and indeed this change is not surprising.
8 The Chinese have slashed their prices dramatically in order
9 to gain market share. PMC competes directly with the
10 Chinese for business on a price basis. The results of this
11 competition are not difficult to see in looking at PMC's
12 financial data.

13 The change in market conditions has also
14 manifested itself in the way in which the product is sold.
15 In the prior case, the Commission noted that there were
16 differences in the pricing structure between PMC and the
17 Chinese in two particular areas.

18 First, the Commission noted that PMC relied on
19 contracts for about 50 percent of its sales and that it
20 offered a two tiered pricing system for those customers that
21 purchased in large quantity, quantity discounts essentially
22 for large customers. Now, while PMC still relies on
23 contracts, the prices negotiated in these contracts are
24 based directly on the competitive price quotes from the
25 Chinese producers.

1 Moreover, any prices offered on volume rebates are
2 also driven by competition with the Chinese product.
3 Chinese producers essentially undercut PMC prices at all
4 levels. Prices are now driven by competition with the
5 dumped product.

6 In most instances, PMC simply cannot compete with
7 the Chinese prices, whether it's on a spot basis or a
8 contract basis. When PMC offers a price, the Chinese simply
9 underbid it, often by very significant margins

10 Another change that has occurred involves the
11 demand for the product. In the prior investigation, the
12 Commission noted that the consumption of saccharin was
13 declining over that period, the POI. While there were
14 various reasons for this decline, part of it may have been
15 due to the belief that saccharin was harmful.

16 Now, however, this notion has long since been
17 dispelled. As of December, 2000, warning labels were no
18 longer required for saccharin products. With this change
19 has come an increasing demand for the product.
20 Unfortunately, as the data submitted in the petition show,
21 PMC has not been able to capitalize on this growth.
22 Instead, as imports from China have skyrocketed as their
23 market share has been growing, PMC's operations have been
24 suffering directly as a result of this surge in Chinese
25 imports.

1 Lastly, during the prior investigation questions
2 arose about the quality of the product being imported from
3 China. In fact, large scale commercial production had only
4 begun in 1992 in China, apparently creating some concerns
5 about quality issues. Now with nearly a decade of
6 experience and substantially greater production facilities,
7 the Chinese producers have overcome any quality issues and
8 now can meet the qualification requirements of U.S.
9 customers. Differences in quality are simply no longer an
10 issue for this product, and the increased sales demonstrate
11 this very dramatically.

12 In sum, virtually every condition of competition
13 that was cited either by the Commission or the Respondents
14 in the prior case has changed. Chinese producers are now an
15 overwhelming force in this market, dominating the market
16 both in terms of volume and price. PMC is hurting in
17 virtually every aspect of its saccharin operations, and
18 relief from these unfairly traded imports is critical to the
19 survival of the company and this business.

20 Mr. McCullough will now discuss in more detail the
21 current state of the saccharin market, and I should also
22 mention to you before I turn to Mr. McCullough that we have
23 several other folks here who are available during the Q&A
24 period, Cory Davids with PMC Specialties Group, Mary Staley
25 of Collier Shannon, and John Gloninger of Georgetown

1 Economic Services.

2 Mr. McCullough?

3 MR. MCCULLOUGH: Good morning. My name is Gordon
4 McCullough. I am the executive vice-president of PMC
5 Specialties Group. I have been involved in the production
6 of saccharin at PMC and its predecessor companies since
7 1975.

8 PMC is the only producer of saccharin in the
9 United States. Therefore, all U.S. produced saccharin is
10 manufactured at PMC's plant in Cincinnati, Ohio. Momi
11 Chemical began production of saccharin in the Cincinnati
12 plant in 1960. The plant was then sold to Sherwin-Williams
13 Company in 1966 and then to PMC in 1985.

14 Saccharin has been used to sweeten foods and
15 beverages without calories or carbohydrates for over a
16 century. In the United States, its daily use by several
17 generations of Americans has made saccharin an integral part
18 of the American lifestyle. It is particularly important to
19 those whose diets require a restriction of caloric or
20 carbohydrate intake. Most health practitioners favor the
21 use of non-caloric sweeteners like saccharin in weight
22 reduction and for people with diabetes.

23 Throughout the 1970s, saccharin was the only low
24 calorie sweetener available in the United States. Saccharin
25 continues to be important for a wide range of low calorie

1 and sugar free foods and beverage applications. It is used
2 in the United States in such products as soft drinks,
3 tabletop sweeteners, baked goods, jams, chewing gum, canned
4 fruit, candy, dessert toppings and salad dressings. One of
5 the most popular uses is in Sweet-N-Low, the tabletop
6 sweetener. Saccharin is also used in cosmetic products,
7 vitamins, pharmaceuticals, animal feeds and tobacco.

8 The future looks bright for saccharin. With the
9 growing popularity of light foods and beverages, saccharin
10 will continue to have a significant role. In fact, as shown
11 in our petition, demand for saccharin in the United States
12 has grown by over ten percent from 1999 to 2001. With the
13 removal of the warning label requirement at the end of 2000,
14 new saccharin sweetened products are in development.

15 However, PMC has not been able to share in this
16 growth because of the surge in the low priced imports from
17 China. Imports from China grew by 150 percent from 1999 to
18 2001 and are continuing to increase at an alarming rate in
19 2002. Newly released import statistics show that the
20 imports from China are heading towards another record year
21 in 2002. PMC has lost significant sales to Chinese imports
22 in every year during the period of investigation. As a
23 result, PMC's shipments have declined steadily.

24 We are here today to express our concern about the
25 imports of saccharin from China entering the United States

1 at unfair prices. As you know, we filed a case in 1993
2 against China and Korea. While we believed we were
3 experiencing material injury then, our financial position
4 now has worsened as shown in the industry indicators and our
5 questionnaire response.

6 Imports from China increased to historical high
7 levels in 2001. In fact, imports from China have surged by
8 more than tenfold since the filing of the petition in 1993.
9 More important, these imports have been sold in the U.S.
10 market at such low prices that the only way we have been
11 able to compete is to sell saccharin without expecting a
12 satisfactory return. In fact, Chinese producers sell
13 saccharin to U.S. importers at prices that are below our
14 production cost.

15 We are in serious trouble because the imports from
16 China have decimated our market. The unfairly priced
17 imports have undersold our product by significant margins
18 throughout the period of investigation and have caused us to
19 lower our prices significantly. In spite of the price
20 reduction, Chinese producers have continued to beat our
21 prices causing a continuing downward spiral in saccharin
22 prices in the U.S. market.

23 The product characteristics of saccharin make the
24 market particularly vulnerable to price competition from the
25 dumped imports. The fact that only a few grades and product

1 forms are used means that it's easy for importers to stock
2 this product in large quantities in the United States.
3 Also, saccharin is available in a limited number of grades
4 and product forms and is a commodity product used in
5 industrial applications.

6 Accordingly, it is relatively unimportant to end
7 users whether they use the product of one manufacturer or
8 another or whether the product is produced domestically or
9 by a foreign manufacturer as long as the product meets or
10 exceeds the Foods Chemicals Codex, the United States
11 Pharmacopeia and the National Formulary specifications.
12 This places us in direct competition with the imports from
13 China who produce the same product and compete at the same
14 customers.

15 The underselling by Chinese imports has adversely
16 affected our company in a variety of ways. First, we have
17 seen a significant increase in China's share of the U.S.
18 market directly at our expense. China's share of the U.S.
19 market more than doubled between 1991 and 2001 and then
20 increased further in the first quarter comparing 2002 back
21 to 2001. Between 1999 and 2001, we lost several annual
22 commitments to a number of U.S. customers, including some of
23 our top customers.

24 This reduction of domestic sales volume has had a
25 devastating impact on our financial performance. As Mr.

1 Hudgens will describe in more detail, our operating income
2 was negative for the entire period of the investigation.
3 This has resulted in steep declines in our capital and R&D
4 expenditures, so our loss of domestic sales volume to the
5 Chinese product has had a very negative effect on our
6 performance.

7 The second impact of the unfair Chinese
8 competition has been even more far reaching. Over the past
9 several years, our customers have become increasingly
10 familiar with the Chinese product and the willingness of the
11 Chinese producers to supply at prices below our own.

12 In a market dominated by a handful of large,
13 important purchasers, we simply cannot afford to lose these
14 accounts or to let competitors make inroads with our
15 longstanding, ongoing customers, and so we have been
16 constrained to defend our remaining business very
17 aggressively by lowering our prices to our current
18 customers. In this way, the effects of each dumped
19 saccharin Chinese sale went far beyond the particular
20 transaction and has affected virtually all of our entire
21 sales base.

22 Last week, a member of the Commission staff
23 visited our manufacturing facility. Unfortunately, he came
24 at a time when we were experiencing a protracted shutdown.
25 We normally shut down for about four weeks a year to do

1 necessary maintenance on the plant and equipment. By this
2 year's end, however, we expect to be closed for an
3 unprecedented 16 weeks because of reduced sales.

4 In light of our worsening financial condition and
5 loss of market share to the subject imports, it is
6 impossible for PMC to continue making investments in
7 equipment, processes and people that are necessary to be
8 viable in the long run. We have invested \$500,000 since
9 January, 1999, to maintain our competitive position.

10 We have done everything humanly possible to reduce
11 our cost and improve our manufacturing processes and
12 productivity. We have implemented a number of measures to
13 improve our efficiency and to make the plant more
14 environmentally friendly, such as programs to recover
15 methanol and their catalyst. We've improved our production
16 yields, and we've introduced a more environmentally friendly
17 solvent.

18 We know that we must remain competitive and
19 responsive to our customers, and we have done so. However,
20 we have continued to lose sales to unfairly priced imports
21 from China. We have been forced to continually lower our
22 price in a never ending spiral to maintain some market
23 share. Our margins have completely evaporated as the dumped
24 imports have entered our market.

25 Capital investments in 2002 are virtually non-

1 existent. In fact, dumped imports have pushed saccharin
2 prices well below our full cost. We cannot continue to
3 operate much longer at a financial loss. We are here today
4 because we are convinced that our company is at a
5 crossroads. If China's pricing continues at current levels,
6 we may choose not to remain in the saccharin manufacturing
7 business, and that, of course, could mean extinction for the
8 U.S. saccharin production industry.

9 As indicated in our petition, we estimate that the
10 five Chinese saccharin producers have enough production
11 capacity to supply the world with low priced saccharin.
12 Given the capital intensive nature of saccharin production,
13 this, perhaps more than anything, explains why the Chinese
14 industry has been so aggressive in its U.S. sales efforts in
15 the last few years.

16 A recent Chinese *Chemical Week* article reported
17 that the saccharin production in China went far beyond the
18 government's central plan just last year, creating an
19 oversupply of saccharin. The article admitted that because
20 of the over production in China, export prices for Chinese
21 produced saccharin plunged from \$1.07 per pound in 2000 to
22 93 cents per pound in 2001. We will submit a copy of this
23 article in our post-conference brief.

24 Unfortunately, the Chinese producers' pattern to
25 continually beat our prices suggest that even lower priced

1 sales are in the offing unless the Commission and the
2 Commerce Department act to neutralize China's unfair pricing
3 practices.

4 Thank you very much for your attention.

5 MR. HARTQUIST: Thank you.

6 Our next presentation will be by Dr. Pearson.

7 MR. PEARSON: Good morning. My name is Ronald L.
8 Pearson. I am the Research & Development manager at PMC
9 Specialties. I have been employed by PMC and its
10 predecessor companies since 1969. I have been specializing
11 in saccharin production since 1982. I have a Ph.D. in
12 organic chemistry from Case Western Missouri University.

13 As Mr. McCullough described earlier, saccharin is
14 a chemical additive that is used primarily as a non-caloric
15 sweetener in foods, beverages and personal care products,
16 such as toothpaste and mouthwash. By weight, it is about
17 350 times sweeter than sugar. Saccharin is also used as an
18 additive in adhesives and in electroplating baths to
19 facilitate nickel brightening.

20 Saccharin is one of the most studied food
21 ingredients. Today, the totality of evidence indicates
22 saccharin is safe for human consumption, but in the past
23 there has been controversy over its safety. The basis for
24 the controversy rests primarily on finding increased
25 incidence of bladder tumors in male rats fed high doses of

1 sodium saccharin.

2 After the 1977 Saccharin Study and Labeling Act,
3 the International Life Sciences Institute began funding the
4 research of Dr. Sam Cohen of the University of Nebraska.
5 Dr. Cohen, over the next 20 years, was to research the
6 fundamental mechanism of male rat bladder tumors initiated
7 by sodium saccharin and other sodium salts. The lack of
8 effect in mice and, more importantly, in monkeys, combined
9 with strong epidemiologic evidence from humans and our newly
10 acquired understanding of mechanism, strongly support the
11 conclusion that exposure to saccharin does not pose a
12 carcinogenic risk to humans.

13 The National Toxicological Program and the FDA
14 agreed with ILSI and delisted saccharin. On December 21,
15 2000, President Clinton signed the Sweetest Act, which
16 removed the warning label. Government, scientists and
17 industry now are all in agreement on saccharin's safety.
18 One need not fear saccharin unless you are a rat.

19 There are basically two industrial methods to
20 produce saccharin, the Momi process and the Remson-Fallberg
21 process. In both processes, saccharin can be produced
22 either in batches or in more sophisticated production
23 operations using a continuous production process.

24 The primary distinction between the two production
25 processes is the starting material and chemical reactions

1 used to produce the saccharin molecule. The Momi process
2 starts with methyl anthranilate, while the Remson-Fallberg
3 method starts with orthotoluene sulfonamide.

4 Although the two production processes start with
5 different raw materials, they do produce saccharin that is
6 nearly identical. Sophisticated analytical equipment, for
7 example a high pressure liquid chromatograph, must be used
8 to discern differences between saccharin produced according
9 to the Momi process and the Remson-Fallberg process.

10 PMC uses a proprietary modification of the Momi
11 process. The current process is viewed as an improvement
12 over the Remson-Fallberg technology partly because of the
13 much less toxicity of the methyl anthranilate compared to
14 the orthotoluene sulfonamide in the Remson-Fallberg process.

15 In the Momi process, a crude form of insoluble
16 saccharin is first derived from methyl anthranilate, which
17 is an ester found in a number of fruit juices, notably grape
18 juice. The product is then further processed into a
19 purified sodium saccharin with the addition of sodium
20 hydroxide.

21 Additional processing is required to produce other
22 grades of saccharin, such as calcium or acid saccharin.
23 Acid saccharin is produced by adding acid to the food grade
24 sodium saccharin. Calcium saccharin is then produced by
25 adding calcium hydroxide to the acid saccharin product.

1 Calcium saccharin is the most expensive form of saccharin
2 because of the additional raw materials and processing
3 required to obtain the product.

4 PMC produces and markets these three types of
5 saccharin -- sodium, calcium and acid. Sodium saccharin is
6 the most commonly used saccharin in the U.S. market. It is
7 sold in a variety of particle sizes and concentrations and
8 is water soluble. Sodium saccharin is produced in granular,
9 powder and spray dry powder forms.

10 Calcium saccharin has improved taste
11 characteristics over sodium saccharin and has gained recent
12 popularity because it does not contain sodium. Calcium
13 saccharin is also water soluble and is produced in powder
14 form. Calcium saccharin is currently used in tabletop
15 sweeteners, diet fountain drinks and various other products.

16 Insoluble or acid saccharin is the acid form of
17 saccharin. It is used in pharmaceuticals, lip balms and
18 chewing gum and is only slightly soluble in water. Acid
19 saccharin accounts for a small share, about less than five
20 percent, of the saccharin market. Acid saccharin is also
21 produced in a powder form.

22 Sodium, calcium and acid saccharin have similar
23 molecular structures, differing only in their gaganiad.
24 Thus, all forms share the same main characteristics. They
25 are intensively sweet, and all are produced to the same USP,

1 FCC and NF specifications.

2 The Chinese producers also use a modified Momi
3 process to produce saccharin. Although we believe that the
4 Chinese producers do not use a continuous process similar to
5 ours, their batch process employs the same chemical
6 principles as our production process and ultimately produces
7 a very similar product to ours.

8 Domestic and Chinese saccharin are interchangeable
9 in customer applications. They are designed for and used in
10 the same end uses by customers. Before purchasing, end
11 users either require a certificate of analysis or conduct
12 their own tests for purity and for adherence to Food and
13 Drug Administration specifications outlined in the Food
14 Chemical Codex and the United States Pharmacopeia.

15 Saccharin that meets these standards is known as
16 food grade and is required for virtually all uses other than
17 adhesive production and electroplating. Therefore, from the
18 customers' point of view all saccharin is purchased based on
19 it being represented as meeting these specifications. As a
20 result, domestic and Chinese saccharin have the same
21 physical and performance characteristics.

22 Furthermore, Chinese produced saccharin is used in
23 the same tabletop sweetener, fountain soft drinks, personal
24 care products and pharmaceutical applications as
25 domestically produced saccharin. In fact, as described by

1 Mr. McCullough earlier, Chinese produced saccharin is
2 increasingly sold to the same purchasers as PMC's saccharin.

3 Before I conclude, I would like to make a few
4 comments on the substitutability between other high
5 intensity sweeteners and saccharin. Saccharin is physically
6 and chemically different from all other high intensity
7 sweeteners. For example, saccharin is 300 times sweeter
8 than sugar, while aspartame is 180 times sweeter than sugar.
9 Because their taste profiles are different, each product
10 requires vastly different compensating ingredients in any
11 given food formulation.

12 Further, saccharin and aspartame have different
13 melting points and solubility characteristics. Saccharin is
14 heat, time and pH stable, which makes for a very stable
15 product. Aspartame, on the other hand, degrades easily
16 under heat or acid conditions and has to be managed
17 carefully for temperature exposure, time rotation and the
18 acidity or basicity of the end use product.

19 In the human body, aspartame is metabolized and
20 furnishes just as many calories as sugar, four calories per
21 gram. Saccharin, however, is unmetabolized and furnishes
22 zero calories. In short, the physical characteristics of
23 saccharin and aspartame are far more distinct than similar,
24 resulting in very different marketplace applications.

25 Saccharin and aspartame are produced by different

1 firms with different facilities. The production processes
2 and chemistry of the two products are entirely different.
3 Furthermore, the price of aspartame distinguishes it from
4 saccharin. The price of aspartame exceeds the price of
5 saccharin by 15 to 20 times on a sugar equivalency basis.

6 Finally, saccharin has numerous end uses in which
7 aspartame simply cannot be used. For example,
8 electroplating, adhesives and chemical intermediate
9 applications take advantage of saccharin's unique chemical
10 structure, not its sweetness.

11 Because of the previously mentioned issues of
12 taste, stability over ranges of temperature, time, pH
13 condition and economics, saccharin and aspartame are not
14 interchangeable. Where saccharin is blended with aspartame,
15 the markets are simply complementary, not interchangeable.

16 Thank you for your attention.

17 MR. HARTQUIST: Thank you, Dr. Pearson.

18 We now turn to Brad Hudgens for the economic
19 testimony.

20 MR. HUDGENS: Good morning. My testimony will
21 discuss the material injury suffered by PMC Specialties as a
22 result of unfairly traded imports from China.

23 Despite strong demand for saccharin, PMC's
24 financial performance deteriorated over the period of
25 investigation, forcing the company to make significant

1 reductions in production in 2001 and 2002. As I will show
2 you this morning, PMC's declining profitability has been as
3 a result of the unfair import competition that it has faced
4 from Chinese saccharin producers and exporters.

5 Over the period of investigation, PMC has been
6 forced to reduce its prices of saccharin to retain sales and
7 compete against the low priced imports from China. As a
8 result, PMC's profits have been fallen in recent years.

9 Before I discuss specific criteria relating to
10 material injury, I would like to spend a few moments
11 discussing several relevant factors affecting competition in
12 the U.S. market for saccharin.

13 First, the general demand conditions have been
14 strong during the POI. Apparent U.S. consumption of
15 saccharin increased by over ten percent during 1999 to 2001.
16 Most of the growth and consumption is attributable to the
17 increasing popularity of light foods and beverages.

18 As Dr. Pearson discussed earlier, a bill was
19 passed that ended the warning label requirement on saccharin
20 sweetened products in December, 2000. As a result of the
21 removal of the warning label, many new products using
22 saccharin are in development. Therefore, the demand
23 prospects are good for the immediate future for saccharin.

24 Second, saccharin is a commodity product for which
25 the primary determinative of the sale is price. U.S.

1 saccharin customers purchase both U.S. and Chinese saccharin
2 and use both interchangeably. Nothing can be more
3 supportive of the finding of substitutability between
4 Chinese and U.S. produced saccharin than the events that
5 have taken place during the POI. China's share of the U.S.
6 saccharin market more than doubled over the POI.

7 In addition, PMC lost major accounts to imports
8 from China entirely due to price. Thus, PMC's largest
9 volume customers are switching their purchases of saccharin
10 to Chinese suppliers because the quality is satisfactory,
11 and the prices are significantly lower than PMC's. These
12 events demonstrate the importance of price in the purchasing
13 decision and the clear substitutability of domestic and
14 Chinese products.

15 In terms of the conditions of the U.S. industry
16 producing saccharin, PMC clearly meets the statutory
17 requirements for material injury. Although the POI was a
18 period of strong demand, PMC's data show downturns in almost
19 every statutory criterion. As imports of Chinese produced
20 saccharin rose by 150 percent during 1999 to 2001, PMC's
21 production and annual shipments declined, and the company's
22 operating losses increased.

23 Both the quantity and value of PMC's U.S.
24 shipments declined during 1999 to 2001. Because of this
25 decline, PMC's share of the U.S. market dropped over the

1 period of investigation. PMC's production of saccharin also
2 declined over the entire POI. This decline was most
3 dramatic during 2001 and interim 2002. Instead of the
4 normal four week shutdown for equipment maintenance, PMC is
5 expecting to shut down for 16 weeks in 2002 because of
6 reduced sales.

7 Given the capital intensive nature of the
8 production process, such production stoppages have a serious
9 negative effect on profitability. As a result, the 2001 and
10 interim 2002 capacity utilization rates were historically
11 low for the company.

12 The employment of production end related workers
13 and hours worked by these employees also fell over the POI.
14 As a result of reduced sales, PMC was forced to reduce its
15 employment by almost 15 percent between 1999 and 2002.

16 Indeed, PMC's injury is most evident in its
17 financial data, which have declined since 1999. It is
18 important to note that PMC's saccharin operations were
19 profitable just before the POI when imports from China were
20 roughly one-third their current levels. As imports from
21 China increasingly displaced U.S. production, PMC's
22 financial situation went from a modest profit to an
23 operating loss. During the POI, the operating losses grew
24 as imports from China increasingly supplied the U.S. market.

25 PMC's response to the Commission's questionnaire

1 shows significant price depression for saccharin. PMC's
2 quarterly prices for saccharin declined in all five
3 products. PMC was forced to lower its prices of saccharin
4 to compete with the low priced imports from China.

5 Even though importers were already offering
6 Chinese produced saccharin at very low prices in 1999, they
7 continued to drop over the POI. In a market dominated by a
8 few large purchasers, PMC could not afford to lose
9 individual accounts. Consequently, the company was
10 constrained to defend its remaining business by lowering its
11 prices to current and ongoing customers.

12 Respondents may argue today that PMC's financial
13 injury was not a result of declining prices, but rather high
14 production cost and manufacturing inefficiencies. However,
15 PMC is the most efficient producer of saccharin in the
16 world. PMC uses a continuous process that is more efficient
17 than the batch process is used by Chinese producers.

18 As Mr. McCullough testified earlier, PMC has
19 implemented several measures to make the plant more
20 efficient. As a result, PMC's other factory unit costs
21 declined during 1999 to 2001. The increase in other factory
22 unit costs in interim 2002 was a result of the prolonged
23 shutdowns that PMC was forced to endure because of reduced
24 sales.

25 Respondents also may argue that PMC's injury was a

1 result of declining demand for saccharin, but the data show
2 that the demand for saccharin has increased by more than ten
3 percent between 1999 and 2001, and the prospects look good
4 for the immediate future. As a result of the warning label
5 being removed, new saccharin sweetened products are in
6 development.

7 Saccharin is the most widely used and the least
8 expensive form of a high intensity sweetener on a sugar
9 equivalency basis both in the United States and in the
10 world. Other high intensity sweeteners such as aspartame
11 are as much as 15 to 20 times more expensive. The different
12 chemical properties and pricing of other high intensity
13 sweeteners limit their substitutability with saccharin and,
14 therefore, have not negatively affected demand.

15 Respondents also may argue that the Chinese
16 product is not interchangeable with the domestic product in
17 terms of quality. However, whenever saccharin is sold in
18 the U.S. market it must meet FCC and USP specifications
19 regardless of the source. Once those requirements are met,
20 saccharin is highly interchangeable. The fact that China's
21 market share has more than doubled over the POI shows that
22 Chinese product is highly competitive in the U.S. market.

23 In summary, the U.S. industry producing saccharin
24 is clearly being materially injured. Despite strong demand,
25 PMC's operating and financial data show deterioration in

1 almost every statutory criterion during the 1999 to 2001
2 period.

3 In terms of the issue of threat of material
4 injury, I would like to make three brief points. First,
5 imports have increased by an unprecedented 150 percent
6 during 1999 to 2001 and have continued to grow in 2002.
7 Second, the Chinese producer and largest exporter to the
8 United States, Suzhou Fine Chemicals, has recently added
9 substantial capacity. Third, as noted earlier, Chinese
10 produced saccharin has been sold in the U.S. market at such
11 low prices that there is the threat that these prices will
12 continue to increase demand for further imports from China.

13 Based on the rapid and significant increases in
14 exports in the United States, substantial increases in
15 capacity and significantly declining import prices, the
16 volume of less than fair value imports from China will
17 continue to increase absent an affirmative determination by
18 the Commission.

19 Thank you.

20 MR. HARTQUIST: Thank you, Brad.

21 I will conclude our direct presentation this
22 morning with some brief words about the like production
23 issue. In the last investigation, the Commission found that
24 there was a single like product, including all grades and
25 forms of saccharin. The Commission specifically excluded

1 from this like product definition an alternative high
2 density sweetener, aspartame. We fully support this prior
3 finding by the Commission.

4 As you have heard from Dr. Pearson this morning,
5 all forms of saccharin share the same basic physical
6 characteristics and uses, are sold through the same channels
7 of distribution and are made using the same two basic
8 production processes.

9 An analysis of the Commission's like product
10 factors also makes clear that other high intensity
11 sweeteners are not the same like product as saccharin.
12 First, the chemical and physical properties of saccharin
13 distinguish it from all other high intensity sweeteners. In
14 light of these different physical and chemical properties,
15 customers simply cannot substitute other sweeteners in place
16 of saccharin.

17 Further, there is no overlap in the production
18 operations. PMC does not make other sweeteners at its
19 Cincinnati facility, and the actual production processes to
20 make these other high intensity sweeteners are substantially
21 different than those used to make saccharin.

22 Finally, the cost and the pricing structure, as
23 you have heard, associated with the manufacture and sale of
24 saccharin is also different from other sweeteners. As this
25 brief review makes clear, we think the like product

1 definition found in the prior investigation remains valid
2 for this investigation as well.

3 We thank you for your attention, and we're
4 available to answer questions.

5 MR. FEATHERSTONE: Thank you, Mr. Hartquist, and
6 to all the witnesses for your presentations.

7 Mr. Na?

8 MR. NA: D.J. Na with the Office of
9 Investigations. I just have a few questions that I will
10 direct to the entire panel.

11 First, the petition states that saccharin is
12 classified under Subheading 29251100. To your knowledge,
13 are there any products other than saccharin that are being
14 imported under that subheading?

15 MR. HARTQUIST: No, there are not.

16 MR. NA: In your testimony, higher demand for
17 saccharin was mentioned several times. One of the reasons
18 mentioned was that the warning labels on saccharin were
19 lifted. Are there any other reasons why there's a higher
20 demand for saccharin?

21 MR. HARTQUIST: Mr. McCullough?

22 MR. MCCULLOUGH: Well, I think since the warning
23 label has lifted that customers realize again that saccharin
24 is the lowest priced, high intensity sweetener available
25 anywhere and that almost any product that is intended to be

1 sweetened with a high intensity sweetener should contain
2 some saccharin as part of the sweetener package that goes
3 into a product. That is becoming more and more a rule in
4 the industries that use saccharin and that make those kinds
5 of products, and I think that that will continue to be a
6 rule.

7 MR. NA: All right.

8 MR. MCCULLOUGH: Also, the diet and lifestyle
9 issues in the United States are becoming more and more
10 recognized, and people are doing something about it and
11 hopefully continue to do something about it.

12 MR. NA: Would you please elaborate? You
13 mentioned the blend in terms of how saccharin is being used
14 in a blend with other sweeteners. Can you elaborate more on
15 that in terms of how much of saccharin is being blended with
16 other sweeteners and if the amount of saccharin in the blend
17 changes with demand for other products or prices of other
18 sweeteners?

19 MR. MCCULLOUGH: Okay. Let's take, for instance,
20 the first blend, the first diet drink, was a product called
21 Diet Rite introduced in 1959 by the RC Cola Company. That
22 was a blend of saccharin and cyclamates. That was 1959.

23 In 1970, cyclamates was banned because it
24 supposedly caused cancer. However, you know, we also know
25 that during the tests where cyclamate was called a cancer

1 causing agent that saccharin was included in that test also,
2 so later, 1977, saccharin was banned.

3 We are part of a group that proved that saccharin
4 did not cause cancer, so it became the blend, a multiple
5 sweetener concept, as pushed by the Calorie Control Council,
6 which is industry groups. They decided that the best way to
7 lessen the risk of using sweeteners and improving the taste
8 profile of all the sweeteners collectively would be to blend
9 them.

10 In fact, Duke University has done a lot of work in
11 blending all the sweeteners, and they have found that
12 actually the better taste comes from many different kinds of
13 blends at different ratios usually containing saccharin,
14 aspartame, cyclamates. Cyclamates are still used everywhere
15 else in the world, but not in the United States.

16 The price, though, of saccharin -- when the
17 formulator is working on a blend, he is not considering the
18 price of saccharin. He is considering the taste profile of
19 saccharin, and they're compensating for the taste profile of
20 saccharin, of aspartame, of cyclamates, of whatever else is
21 used.

22 There are a lot of new ones just coming on the
23 market -- neotame and splenda. Those are the new ones, and
24 really they haven't worked themselves into blends yet. I
25 don't know if they will, but everybody in the industry is

1 looking at blends because some of these things are very
2 expensive. Saccharin is not very expensive. Therefore, the
3 blend actually reduces the total cost of the sweetener
4 product that you put into a product.

5 MR. NA: Does the amount of saccharin in the blend
6 change, or does it always stay the same?

7 MR. MCCULLOUGH: No. It changes.

8 MR. PEARSON: Let me address that a little bit.
9 Each food requires a special formula to put it together
10 because of the other ingredients' impact, the sweetness that
11 it will have and then the taste profile that the finished
12 product will have. Each product wouldn't have the same
13 amount of saccharin and the same amount of aspartame.

14 The formulator for one product formulates to the
15 specifications, the food taste requirements, of his product.
16 Another food formulator of a different product would
17 formulate to get the best taste, the optimum taste, out of
18 his product. Therefore, the aspartame/saccharin ratio would
19 vary from one product to another.

20 In addition to that, the food formulator has at
21 his disposal other sweeteners. It's probably his objective,
22 and I don't work for a food formulator, but it's probably
23 his objective to come up with the optimum taste at the least
24 possible cost. Therefore, he's going to blend several
25 sweeteners to get the optimum taste, but at the same time

1 he's doing that he's trying to keep the cost of his product
2 down because he's probably in competition with somebody
3 else's diet product as well.

4 MR. HARTQUIST: If I can help maybe to reduce this
5 to terms a non-scientist would understand like me, I think
6 what we're saying is that if you change the blend between
7 saccharin and aspartame or other sweeteners, you change the
8 taste of the product. While price is a consideration,
9 obviously, in making any product, if you change the blend
10 you have a different product. You have a different taste.

11 If the price of one sweetener is higher or lower,
12 that may be a consideration in your total cost of producing
13 the product, but you have to bear in mind it's going to
14 become a different product, and the consumers will recognize
15 the differences in taste.

16 MR. NA: Thank you. I don't want to belabor this
17 point too much, but in terms of substitutability you
18 mentioned that it is limited with other sweeteners. Have
19 you lost any sales or revenues to competition with other
20 sweeteners?

21 MR. MCCULLOUGH: Not that we can really identify,
22 no. We don't consider aspartame or any of those a
23 competitive product. It's more like a complementary product
24 to us now.

25 MR. NA: Okay. Very good.

1 MR. MCCULLOUGH: It's something that we're likely
2 to be blended with.

3 MR. NA: Thank you. That's all the questions I
4 have for now.

5 MR. FEATHERSTONE: Ms. Hughes?

6 MS. HUGHES: Let me stick with the question of
7 blends for a minute here. You're just selling saccharin,
8 and it's your customer who would be the producer of the soft
9 drinks or whatever who's buying the aspartame and blending
10 it together? You're not selling the blend, right?

11 MR. PEARSON: That is correct.

12 MS. HUGHES: Okay. So it sounds like blending is
13 becoming more common than it was perhaps back in 1994?

14 MR. PEARSON: Each individual sweetener cannot
15 stand alone. No one sweetener mimics the gold standard of
16 sucrose.

17 Therefore, the food formulators have found that
18 you get closer to the taste profile of sucrose by blending
19 various sweeteners together. It's almost mandatory now to
20 get the best taste to take your pallet of sweeteners
21 available and choose the best ones to get your best taste
22 profile for your particular product.

23 MS. HUGHES: And this is something that's been
24 since 1959 or whenever?

25 MR. PEARSON: There weren't nearly so many

1 sweeteners available.

2 MS. HUGHES: But they were always blended, or no?

3 MR. PEARSON: No. Well, at one time saccharin was
4 the only high intensity sweetener that was even available.
5 I think this blending has been more of a recent phenomena.
6 In the 1990s it started.

7 MS. HUGHES: Okay. How does blending affect the
8 demand for saccharin? Is saccharin generally the primary
9 component of the blend?

10 I understand how it would vary depending on what
11 the product is, but do you have any idea as to what the
12 proportions might be such that saccharin maybe is the
13 predominant sweetener involved?

14 MR. PEARSON: In some products I'm sure saccharin
15 is the predominant sweetener, but in many other ones again
16 it depends upon the taste that the formulator is trying to
17 achieve.

18 MS. HUGHES: But overall, just in very broad
19 terms? Do you have any concept?

20 MR. PEARSON: I know of one new product where
21 saccharin will supply 50 percent of the sugar equivalency --
22 50 percent of the sugar equivalency -- but it will only be
23 about ten percent of the sweetener put into the formulation
24 because saccharin is stronger, more sweet, than the other
25 two sweeteners that are in that formulation.

1 MS. HUGHES: Okay. Can you say there is a higher
2 or a lower demand for saccharin as the demand for blends
3 increases?

4 MR. PEARSON: The demand for saccharin has
5 actually increased with the advent of these other
6 sweeteners. Saccharin by itself, 25 percent of the
7 population can taste bitterness in saccharin if saccharin is
8 the only sweetener in the product.

9 With the advent of all these other sweeteners,
10 that detrimental aspect can be blended away so that you
11 cannot detect a bitterness from saccharin or bitterness from
12 the other sweeteners. Most sweeteners, if you just use them
13 alone, will carry some bitterness with them, so the whole
14 product tastes better if you blend multiple sweeteners
15 together.

16 MS. HUGHES: So is saccharin used often because
17 it's cheaper than the other sweeteners?

18 MR. PEARSON: That would be its main advantage.

19 MS. HUGHES: Okay.

20 MR. MCCULLOUGH: We don't like to say cheaper,
21 though. We like to say --

22 MS. HUGHES: Less costly?

23 MR. MCCULLOUGH: No. The most high performance --

24 MS. HUGHES: Okay.

25 MR. MCCULLOUGH: -- for the least dollars.

1 MS. HUGHES: Okay.

2 MR. MCCULLOUGH: It is the most widely used single
3 sweetener in the world.

4 MS. HUGHES: Okay. And in the United States?

5 MR. MCCULLOUGH: That's close. Yes, it's probably
6 in the United States, too, but in the world for sure.

7 MS. HUGHES: Okay. If it's close in the United
8 States, what would be its primary competition? Aspartame?

9 MR. MCCULLOUGH: I wouldn't call it competition,
10 but the pounds used. Aspartame on a sugar equivalency basis
11 is a lot closer in the United States than it is anywhere
12 else in the world, but I think saccharin is still more used
13 on a sugar equivalency basis in the United States than
14 aspartame is used in the United States.

15 MS. HUGHES: Okay. Is there a business cycle
16 involved in the saccharin industry, if you will, in terms of
17 production or demand or whatever other aspect there is?

18 MR. MCCULLOUGH: No, I don't think so because a
19 lot of this goes into personal care products and
20 pharmaceuticals. They kind of have a general demand
21 constantly, continually, no season for it.

22 The only one that has a seasonality to it is diet
23 soft drinks. You know, in the summertime more is sold.
24 That's about the only one that there's a big difference.

25 MS. HUGHES: Okay. I know you contend with

1 respect to like product that aspartame should not be found
2 to be included in the domestic like product. I assume you
3 would maintain that position with respect to these newer
4 sweeteners such as splenda and the like?

5 MR. HARTQUIST: Yes, we would.

6 MS. HUGHES: Okay. And for the same reasons with
7 respect to aspartame?

8 MR. HARTQUIST: Exactly.

9 MS. HUGHES: Okay. In the petition, I think you
10 outlined just about all the reasons that you believed there
11 could be a threat of material injury or reasonable threat of
12 material injury by reason of the subject imports, but if you
13 could explain whether or not you believe that there is a
14 potential for product shifting and what might be the actual
15 and potential negative effects on existing development and
16 productive efforts, I would appreciate that.

17 You can do that either now or in your post-
18 conference brief.

19 MR. HARTQUIST: We'll be happy to do that in the
20 brief.

21 MS. HUGHES: Okay. Someone mentioned there is a
22 different marketplace or different marketplace applications
23 for aspartame, I think. I don't quite understand what that
24 means. Different end uses?

25 MR. MCCULLOUGH: Yes. Aspartame is not used in

1 mouthwash, toothpaste, electroplating, tobacco. I would say
2 in about 80 percent of the market applications of saccharin,
3 aspartame is not used at all. Zero.

4 MS. HUGHES: Okay. And that would be because? Is
5 there a general reason?

6 MR. MCCULLOUGH: It's not practical.

7 MS. HUGHES: The cost?

8 MR. MCCULLOUGH: No, not necessarily the cost.

9 MS. HUGHES: The chemicals?

10 MR. MCCULLOUGH: Stability.

11 MS. HUGHES: Okay.

12 MR. MCCULLOUGH: Lack of stability. Lack of
13 stability due to hydrolysis. You know, it breaks down in
14 the presence of water in front of acids and bases, and it
15 breaks down in heat also.

16 MS. HUGHES: Okay. I think that's all of my
17 questions. Thank you very much.

18 MR. FEATHERSTONE: Mr. Levy?

19 MR. LEVY: I guess my first question will go to
20 Dr. Pearson. I think you touched on it earlier about the
21 different types of saccharin and the different uses. I
22 believe it was the calcium saccharin. Would that be more
23 used in like soft drink applications versus the sodium
24 saccharin?

25 MR. PEARSON: Again, it depends upon the taste

1 that you're trying to achieve. Calcium saccharin has in our
2 studies, plus other people's studies, slightly less
3 bitterness associated with it, but you pay a premium to get
4 that less bitterness, so some people will try to formulate
5 around it with sodium saccharin.

6 MR. LEVY: Okay. I was just wondering because I
7 think you said that the calcium saccharin tended to be more
8 water soluble.

9 MR. PEARSON: It's not more water soluble. Both
10 sodium saccharin and calcium saccharin are used in water
11 soluble applications.

12 MR. LEVY: Okay. I was just wondering. I thought
13 that you had mentioned that there was more of a movement
14 toward the calcium saccharin.

15 MR. PEARSON: In some circumstances. For
16 instance, there's a lot of people that are concerned with
17 sodium intake. Therefore, the product of choice would then
18 be calcium saccharin.

19 MR. LEVY: Okay. Not to beat this too much, but
20 you were talking about I guess the non-substitutability of
21 the aspartame. I guess aspartame is primarily used in the
22 soft drinks?

23 MR. PEARSON: It's used in the food industry as
24 well.

25 MR. LEVY: The food industry as well. Okay.

1 Let's see.

2 I guess another question which you also touched
3 upon somewhat has to do with if there are I guess any
4 difference in the product characteristics or the conditions
5 of sale between the U.S. and the Chinese product.

6 I think some examples have been noted such as
7 differences in size consistency or clumping or as far as
8 sales conditions the ability of some of the importers to
9 source multinationally and also differences in delivery
10 times.

11 Would you comment on whether these differences are
12 significant or not?

13 MR. MCCULLOUGH: Basically the Chinese will import
14 into the United States long before there is an actual order
15 and they will stock it in a warehouse. Either the importers
16 will stock it, or maybe they will stock it. I really don't
17 know how they do that specifically, but they do import
18 before there is a need.

19 They can deliver, you know, as soon as they can
20 get it out of the warehouse, so the next day or the
21 following day, which is that's what we can do, too. That's
22 why they do that so that they can be equal to us.

23 MR. LEVY: So there isn't an issue of having the
24 saccharin degrade if it's sitting in stock?

25 MR. MCCULLOUGH: No. Saccharin is very stable.

1 We have stock sitting around that is still 100 percent good
2 for I think the last 11 years, so it doesn't degrade very
3 quickly.

4 What was the other part of your question?

5 MR. LEVY: Another issue that was brought up was
6 this ability of the foreign suppliers to supply say a
7 multinational company in the U.S. multinationally and that
8 that may be --

9 MR. MCCULLOUGH: Do you mean to supply a U.S.
10 company in the United States and in Europe and in China and
11 everywhere?

12 MR. LEVY: Right.

13 MR. MCCULLOUGH: We can. They can. Yes.
14 Everybody can. The world is very small today.

15 MR. LEVY: Okay.

16 MR. MCCULLOUGH: It's doable.

17 MR. LEVY: Okay. I guess the only other question
18 I have is you mentioned before about I guess the 16 week
19 stoppage basically due to lack of production. During the
20 POI, have you had any stoppages due to things like worker
21 strikes or inability to receive the raw materials?

22 MR. MCCULLOUGH: No. We've had no stoppages for
23 any of those reasons. We just haven't stopped, I mean, for
24 those reasons anyway.

25 MR. LEVY: All right. Those are all the questions

1 I have.

2 MR. LAND: I have a question about the product
3 itself. Two forms are water soluble. Are any of your sales
4 in aqueous solution, or are they all crystal forms?

5 MR. PEARSON: Our sales are crystallin because
6 there is no liquid product that the FDA has specifications
7 on.

8 MR. LAND: An that's true of all saccharin sales?

9 MR. PEARSON: That's true of all saccharin sales.
10 Right.

11 MR. MCCULLOUGH: Wait. In industrial applications
12 and electroplating we do sell solutions. That's a non-food
13 application, however.

14 There is a 30 percent liquid solution, and we sell
15 that to electroplaters because they're going to drop it into
16 water anyway. We already do it for them and ship it in tank
17 trucks or drums. This liquid is then dropped into
18 electroplating baths.

19 MR. LAND: Okay. When you reported that to us on
20 the questionnaires, was that reported on a dry basis?

21 MR. MCCULLOUGH: Yes.

22 MR. LAND: Thank you.

23 MR. MEHTA: There are some byproducts due to the
24 production of saccharin, right? How do you treat the sale
25 of byproducts in your accounting records?

1 MR. MCCULLOUGH: We don't have any byproducts. A
2 byproduct, by my definition, is something that you don't
3 want and you get it anyway whether you want to or not.
4 Everything we do is done on purpose, so we don't get
5 byproducts per se.

6 MR. PEARSON: Our process is optimized to create
7 saccharin. We do not have byproducts created in our process
8 which we subsequently isolate and sell.

9 MR. MEHTA: So there are no byproducts in your
10 process?

11 MR. PEARSON: There are no byproducts. I mean,
12 there are chemical byproducts that are created because no
13 process is perfect, but we minimize those, and we make no
14 attempt at isolating because there's no market for them
15 anyway.

16 MR. MEHTA: So there is no question of selling the
17 byproducts?

18 MR. MCCULLOUGH: Are you speaking of the
19 intermediates we make on the way to making saccharin? We
20 don't call those byproducts.

21 MR. MEHTA: In your petition, you know, you said
22 there are byproducts. There are two byproducts.

23 MR. MCCULLOUGH: An accountant answered that.

24 MR. MEHTA: You know, that's why I asked the
25 question.

1 MR. MCCULLOUGH: We will address that in a post-
2 conference brief. I can see where a little confusion would
3 exist. We basically just make these products on the way to
4 making saccharin. They're part of the chain, so to speak,
5 but they're really well before saccharin is ever made.

6 MR. MEHTA: Thank you.

7 MR. FEATHERSTONE: Ms. Noreen?

8 MR. MCCULLOUGH: There are separate cost centers,
9 though. They have their own cost center. The product is a
10 cost center. Therefore, they are completely different than
11 saccharin.

12 MR. PEARSON: In the process that was discussed by
13 the Chinese in the petition eight or nine years ago, they
14 did say that they had two byproducts in their process which
15 they did further isolate and then sell, but we do not do
16 that with our process.

17 MS. NOREEN: Bonnie Noreen with the Office of
18 Investigations.

19 I hate to belabor the blends, but how much of your
20 product do you sell or how much of your product is blended
21 by the users with other sweeteners?

22 MR. MCCULLOUGH: We don't really keep any
23 statistics on that. Usually our customers would not share
24 that with us either.

25 I can tell you from just observing our customers

1 how much is blended. For instance, every pound that we
2 would sell to a soft drink company would be blended. It's
3 usually not used alone, although there are a couple products
4 out there like Tab, for instance, that does not have
5 aspartame in it. It is sweetened with saccharin only.
6 There are some fountain syrups that are sweetened with
7 saccharin only, but most of the fountain syrups and most of
8 the soft drinks in the cans that are sweetened with
9 saccharin do have aspartame in it also.

10 I think anyway, and we'll try to check the records
11 and put it in the brief, too, but approximately 80 percent
12 of the saccharin is not blended and is used by itself in,
13 you know, toothpaste, mouthwash, pills, cough syrup. A lot
14 of your medicines, especially your liquid medicines and
15 especially those which kids take, have saccharin in it.
16 They're never blended.

17 Animal feed is not blended with anything, any
18 other sweetener. Maybe it's blended with some fructose or
19 some sugar, but it's not blended with any other synthetic
20 sweetener. You know, for animals any other sweetener would
21 be just too expensive.

22 So the soft drink, diet fountain drinks and diet
23 cans. That's about the only area where they're blended at
24 all.

25 MR. HARTQUIST: I think what's being suggested

1 here is that about 20 percent of the total sales of
2 saccharin go into blended products, but the customers do not
3 tell PMC what the proportions are in their product.
4 Obviously the products formulations are trade secrets, so
5 PMC doesn't really know in a particular product how much is
6 saccharin, aspartame or some other sweetener.

7 Roughly one-fifth of their total sales would go
8 into products that contain blends, and that's a very ball
9 park estimate --

10 MS. NOREEN: Sure.

11 MR. HARTQUIST: -- because, as I indicated, they
12 don't keep their records on that basis.

13 MS. NOREEN: So soft drinks make up less than one-
14 fifth of the use for saccharin then?

15 MR. MCCULLOUGH: In terms of our sales, yes.

16 MR. FEATHERSTONE: And in terms of your sales,
17 please keep business proprietary information in mind.

18 MR. MCCULLOUGH: Yes.

19 MR. FEATHERSTONE: There's no need to explain.

20 MS. NOREEN: In terms of the blends, I think I
21 more or less understood that the blends would usually be
22 sodium saccharin because the price of the calcium saccharin
23 is high and so it wouldn't be advantageous in blends, or was
24 I misreading what you were saying?

25 MR. MCCULLOUGH: They use both.

1 MS. NOREEN: They use both, so the calcium
2 saccharin is also used in the blends?

3 MR. MCCULLOUGH: Yes. We don't know how much.

4 MS. NOREEN: Sure.

5 MR. MCCULLOUGH: We don't even have a guess on
6 that one.

7 MS. NOREEN: You normally close about four weeks a
8 year. Is that at any particular time? Do you close in a
9 block of four weeks, or do you close one week in the spring
10 and then --

11 MR. MCCULLOUGH: Yes. We usually close around
12 July 4 and December 25.

13 MS. NOREEN: For two weeks each time?

14 MR. MCCULLOUGH: Yes.

15 MS. NOREEN: And now you're going to be closed for
16 16 weeks. Are they in blocks of time or spread throughout
17 the year?

18 MR. MCCULLOUGH: There are still those two blocks
19 of July 4 and December 25, but then it becomes whenever the
20 production manager or plant manager decides to close.

21 MR. PEARSON: It is less expensive to run your
22 saccharin process full out. Slowing out makes your cost per
23 pound higher. Instead of slowing down our production, what
24 we do is just run full out until we have enough in
25 inventory, and then we will shut down for a period of time,

1 depending upon what the lack of demand might be.

2 MS. NOREEN: And so you call your people back then
3 based on when you've sold enough?

4 MR. PEARSON: We also produce other products on
5 site. Therefore, they would be shifted to other products.
6 We don't lay them off and then call them back.

7 MS. NOREEN: Okay. So when you're shut down,
8 you're shutting down the facility, but you're not shutting
9 down your employees?

10 MR. PEARSON: We are shutting down only the
11 saccharin unit.

12 MS. NOREEN: Only the saccharin unit?

13 MR. PEARSON: Yes. We have many other units on
14 site which continue to run while saccharin is shut down.

15 MS. NOREEN: Okay.

16 MR. MCCULLOUGH: We make more than just saccharin.
17 We make 70 other products, too.

18 MS. NOREEN: Okay. If you have a higher demand in
19 the other products, if you were to have a spurt in the other
20 products, you would be shutting down your saccharin unit
21 anyway or not?

22 MR. PEARSON: No, we would not. We would have to
23 hire more people.

24 MS. NOREEN: Hire more people. Okay.

25 I may have misunderstood what the original

1 testimony was, and this was from your testimony, Mr.
2 McCullough, your original testimony when you talked about
3 normally you would shut down for four weeks, but this year
4 it was going to be 16 weeks. Then you said something about
5 methanol recovery and something about more environmentally
6 friendly catalyst.

7 I was just thinking that maybe this closure for
8 the 16 weeks was in order for you to implement these changes
9 in your processes. Is this not correct then?

10 MR. MCCULLOUGH: No. We've already done the
11 methanol recovery unit. We've already improved the catalyst
12 system. Those were done previously to this year, so those
13 really have nothing to do with shutting down during 2002.

14 Our shutdown during 2002 is just because of the
15 fact that we have reduced sales, and the inventories we need
16 are not so grand anymore.

17 MS. NOREEN: We have asked in our questionnaires
18 for information on the four types of saccharin, and you have
19 responded and, of course, the Chinese have responded because
20 we asked of the Chinese product in our questionnaires. We
21 did not ask for other imports based on sodium versus acid
22 versus calcium.

23 Do you have any reason to feel that imports from
24 other sources would have a different kind of mix than your
25 product or than the Chinese product in terms of, for

1 example, more of the acid than you would have? Do you
2 understand what I'm saying?

3 MR. MCCULLOUGH: Well, we know the imports from
4 the other countries. We see them on the same report that we
5 see the Chinese imports. By determining what the price of
6 those imports are, we know what the form and quality of the
7 product is, whether it's calcium or insoluble or sodium, so
8 we can pretty well tell what the Koreans and the Japanese
9 are bringing into the United States.

10 We can tell also where they're going and to which
11 customer because we know that through experience. The
12 product mix brought in by the Japanese and Koreans are
13 different than the Chinese. The Koreans and Japanese bring
14 in very little sodium saccharin.

15 MS. NOREEN: So is there --

16 MR. MCCULLOUGH: No. That's wrong. I'm sorry.
17 The Koreans bring in insoluble saccharin to a certain place
18 every time. They also bring in sodium saccharin granular,
19 lots of it, to one particular place. Basically 90 percent
20 of the Korean imports goes to one place, and we can provide
21 that in the brief.

22 MS. NOREEN: We would appreciate that.

23 MR. MCCULLOUGH: What our opinion is anyway.

24 MS. NOREEN: Sure.

25 MR. MCCULLOUGH: Then the Japanese bring in mostly

1 calcium saccharin.

2 MS. NOREEN: Okay. Thank you. Thank you very
3 much.

4 I noticed in the petition you mentioned four
5 grades. You mentioned the acid, the sodium, the calcium and
6 also something called research grade. What is research
7 grade, and do you know of anybody who makes it? If so, who?

8 MR. MCCULLOUGH: The last time that I know that
9 research grade was made was by Sherwin-Williams Chemicals
10 prior to PMC acquiring.

11 The purpose of research grade was to give to the
12 University of Nebraska and others, anybody who wanted to do
13 rat carcinogenic tests or monkey tests or human tests or
14 primate tests of any kind. That was the controlling
15 saccharin used to test, to do research to see if saccharin
16 caused cancer.

17 MS. NOREEN: So that would have been a sodium
18 saccharin then because didn't you say earlier that the --
19 somebody said.

20 MR. MCCULLOUGH: It's been quarantined. It's
21 quarantined. It's still in a secure warehouse in
22 Cincinnati. What was left is still there.

23 I don't know if it was. Right off the top of my
24 head, I couldn't tell you if it was calcium, sodium or
25 insoluble. I would think it would be all of them.

1 MR. PEARSON: What we did was for the University
2 of Nebraska and other institutions that were studying the
3 health impact of saccharin, we quarantined a batch of sodium
4 saccharin.

5 It was a regular production batch which we did
6 quite complete analytical tests on to make sure that it was
7 not an abnormal batch, and then we would furnish that
8 information and then quarantine the batch so that in their
9 studies they could ask for saccharin from us, and then the
10 next time they asked for it they would be receiving the same
11 material.

12 That was called research grade saccharin. It was
13 just normal material set aside. It was no further
14 purification or anything like that. It was just normal
15 industrial grade saccharin which was very intensely analyzed
16 and was quarantined and, as Gordon says, still is in
17 quarantine.

18 MS. NOREEN: Thank you. That makes it very clear
19 then.

20 I know I have one more question but I've lost it,
21 so I guess that's it. Thank you very much.

22 MR. FEATHERSTONE: Okay. Thank you all again for
23 your testimony and for answering the questions.

24 We'll take I guess it's about a nine minute break
25 by the clock at the back of the hallway. We'll resume at

1 11:00 with Mr. Perry.

2 Thank you.

3 (Whereupon, a short recess was taken.)

4 MR. FEATHERSTONE: Could we resume the conference,
5 please?

6 Welcome, Mr. Perry. Please proceed at your
7 convenience.

8 MR. PERRY: My name is William Perry of the law
9 firm of Garvey, Schubert & Barer, and I am here today
10 representing the Chinese Respondents and some of the U.S.
11 importers in the case. This case reminds me about the old
12 saying by Yogi Berra. This is deja vu all over again.

13 PMC is right. There are some differences between
14 this case and the last case, but there are also a lot of
15 similarities, so we should talk about the similarities
16 first, which I'm going to summarize, talk a little bit about
17 the differences, and then I'm going to have my witnesses
18 support these points.

19 What are the similarities? Well, one of the
20 similarities, which is very interesting, is when this case
21 was filed in 1993 and 1994 we were in a recession. Guess
22 what? We're in a recession today. Basically PMC made the
23 same arguments in the last case that saccharin was not
24 affected by the recession. The Commission disagreed.

25 Go back and read the prehearing staff report.

1 Basically they are very clear. It was due to the economic
2 downturn. In an economic downturn, the Commission must take
3 a look at the industry and analyze it in the context of the
4 business cycle, and we believe that is very relevant in this
5 case.

6 My witnesses are going to testify there ain't no
7 growth in demand. It's stable. One reason for this is PMC
8 is arguing that the lifting of the warning label has created
9 this tremendous upsurge in demand for saccharin, but I'd
10 like to quote an article that I put in my prehearing brief
11 way back when.

12 As Tim Perco of Bevmark, a beverage consultant,
13 stated in a July, 1993, article in *Chemical Marketing*
14 *Reporter* about removing the warning label from saccharin,
15 "Even if the label is taken off, you have to remember that
16 there's a whole generation with the perception that
17 saccharin makes little rats fall over dead. That's a
18 difficult image to dispel."

19 My witnesses will make the same point. They're
20 not seeing this dramatic growth, and the reason is there is
21 a perception out there that saccharin causes cancer, and it
22 is having an effect. Even one of my partners mentioned this
23 to me two days ago when I told him I was doing the saccharin
24 case. He said isn't that the one that causes cancer? The
25 fact that the warning label has been removed is not getting

1 down to the consumer level, and this is affecting the
2 purchases of saccharin.

3 What else is the same? Aspartame. We go back,
4 and it's very interesting. PMC is arguing that the prices
5 of aspartame have no effect on saccharin, but the ITC
6 disagrees. Let's go back to a 1993 report by the
7 International Trade Commission called the Agricultural
8 Imports Report. It's at 2-30, and it was July 12, 1993.

9 The ITC said, "In addition, the patent on
10 aspartame production expires in December, 1992. The price
11 of aspartame is expected to drop substantially, perhaps to
12 as low as \$30 to \$35 a pound, ten to 15 cents per pound
13 sugar sweetness equivalent. This may enable aspartame to
14 compete with sugar and other sweeteners on a price basis."

15 What is the price of aspartame today? \$10 a
16 pound. We have had a substantial slide drop in the
17 aspartame price, and, of course, that's going to have an
18 effect on saccharin prices. We also have a substantial
19 addition of new, alternative sweeteners in the market, which
20 my witnesses will get into.

21 The other similarity in this case is imports.
22 What's happened here is the Chinese for the most part,
23 probably all of it, have replaced the Koreans. The
24 assumption of PMC in bringing this case is if we wipe out
25 the Chinese, we'll pick up all the Chinese market share.

1 You're not going to pick up the Chinese market share. The
2 Koreans are. They're just going to come back in and take
3 it. The Japanese are also starting to be in this area. PMC
4 itself mentioned it.

5 The Koreans are definitely alive, and contrary to
6 some beliefs of probably PMC some of them are very alive and
7 very healthy and are watching this case very closely. If
8 you put an antidumping order on saccharin from China, the
9 Koreans are just going to come in and fill the void. PMC
10 isn't going to be the one that wins in this case.

11 What are the differences? Well, one of the big
12 differences is the customers in this case are
13 multinationals. The key differences that account for the
14 growth in China is the customers themselves that are buying
15 now on a worldwide basis.

16 Where is P&G's purchasing agent? Not in
17 Cincinnati, Ohio. Quang-Cho, China. They're buying on a
18 worldwide basis, and they want their prices to be basically
19 uniform throughout the world. This is not a situation where
20 it's a push by the Chinese to drop dumped imports all over
21 the world. It's a pull by the customers who are looking at
22 different prices all around the world for all their
23 different facilities all over the world.

24 In fact, as Karsten will mention, when they went
25 into one of these huge companies, the huge company, the

1 purchasing agent, looked at him and said I'm not going to
2 buy saccharin from you unless you can give me a \$100,000
3 cost difference. Why? It's going to take us \$75,000 to
4 \$80,000 to qualify your saccharin before we can use it, so
5 you've got to give us a reason to buy your saccharin.
6 Qualification is a big issue, but once you qualify you
7 qualify worldwide.

8 The other interesting point about this is PMC
9 isn't there. These people will testify that PMC is not
10 their competition. The competition with the Chinese is the
11 Koreans. PMC is never there. It's not mentioned. Again,
12 we're now competing on a worldwide market. The saccharin
13 market, because of these huge multinationals, has become
14 global. The customers are extremely sophisticated, and
15 they're playing markets and prices off against each other.

16 The other point that I do want to make is you have
17 to understand that Suzhou and Shanghai Fortune and the
18 people here were a little surprised by this case. Two
19 months ago, PMC was involved in joint venture negotiations
20 with Suzhou. Last year, they made three trips to Suzhou's
21 factory in China.

22 We now know that, of course, these were simply
23 sham negotiations. They were attempts to get data to file a
24 dumping case. Now, I understand the idea that all is fair
25 in love, war and trade cases, but I think it's also

1 important for the ITC to realize that that's what happened.
2 PMC basically deceived Suzhou into thinking that they were
3 really interested in a joint venture when what they were
4 really interested in was filing another dumping case.

5 Now I'd like to introduce you to my witnesses,
6 Karsten Kohler from HELM Chemical, Wayne Ritell from Rit-
7 Chem, George Chan from Shanghai Fortune, and Joan Ni from
8 Suzhou-Chem, USA.

9 Karsten, start off.

10 MR. KOHLER: Good morning. My name is Karsten
11 Kohler, and I am vice-president, Nutritional Division, of
12 HELM New York, Inc.,

13 Our company has been importing sodium and calcium
14 saccharin for about 13 years with our primary focus on
15 calcium saccharin during the last few years. We have
16 participated in successfully defending the last attempt by
17 PMC to have an antidumping duty imposed on Asian saccharin
18 in 1993.

19 Before addressing my feelings about the case, I
20 would like to describe the saccharin market in general.
21 There are really three types of saccharin that are at issue
22 in this case -- sodium saccharin, calcium saccharin and
23 insoluble saccharin.

24 Sodium saccharin is used as a sweetener and in the
25 electroplating industry. Calcium saccharin has been used by

1 Cumberland in the Sweet-N-Low product. The reason that
2 Cumberland turned to calcium saccharin rather than the
3 sodium saccharin was the warning label. In the 1970s,
4 Cumberland believed that saccharin's cancer problem had
5 something to do with the sodium and not the calcium
6 saccharin. As a result, Cumberland turned to the calcium
7 saccharin. In contrast to sodium and calcium saccharin,
8 insoluble saccharin is a different animal, which is
9 primarily used in the herbicide market as a chemical
10 intermediate.

11 In my opinion, this new petition by PMC has more
12 to do with saving a business operation that has failed to be
13 competitive in a global business environment than to do with
14 Chinese manufacturers supposedly selling at less than fair
15 market value.

16 The competition in the worldwide artificial
17 sweetener market has become even fiercer since 1993 with the
18 introduction of new products competing for the same market
19 segments, such sucralose, tagatose, and S-Sulfium K.

20 Back in the 1993-1994 investigation, we talked
21 about the tremendous competition that saccharin was facing
22 because of aspartame. This pressure has become even more
23 intense as prices for all artificial sweeteners have fallen.
24 Aspartame, for example, has reached a price level of less
25 than \$10 a pound today, down from over \$30 a pound in 1993.

1 As prices for the other sweeteners have fallen, there is
2 even more competition in the sweetener market.

3 Although PMC may argue that the warning label has
4 been lifted from saccharin, in fact in the marketplace we
5 have seen no change. Many customers perceive that saccharin
6 is unsafe and, therefore, wish to use alternative
7 sweeteners. Although in the petition PMC states that
8 saccharin is growing, HELM sees the saccharin market as
9 fairly stable with little growth potential. We estimate the
10 U.S. market size to be around 4,000 tons today, which has
11 not changed much even after the removal of the warning label
12 in 2001.

13 Import price levels, which are the CIF prices from
14 China to the U.S. importer, since 1993 have fluctuated
15 between about \$3.05 a kilo in 1993 to over \$4 a kilo in 1995
16 and 1996 and back to a lower level today in correlation with
17 the general trend in many chemicals. In other words, the
18 Chinese manufacturers were able to even increase prices at
19 times and still capture additional market share.

20 In my opinion, the recent increases in Chinese
21 saccharin imports are less a factor a price, but a change in
22 the needs of large, global customers. HELM estimates that
23 about 80 percent of the U.S. saccharin demand is consumed by
24 less than 20 companies, amongst them globally operating
25 companies such as Colgate Palmolive, P&G, Coca-Cola and

1 Unilever to name a few. I see a general trend amongst these
2 companies to cut back on regional suppliers for commodities
3 and work with only one or two partners that can supply their
4 global demand.

5 In my opinion, a company such as PMC, with a
6 limited saccharin capacity of only about 4,000 tons a year,
7 is not in a position to service the global needs of such
8 large customers either quantity wise nor logistically.
9 Also, they are not able to get a competitive cost position
10 compared to a producer that has a capacity of 12,000 tons a
11 year.

12 This seems to be the real reason that PMC is
13 losing ground to these Chinese manufacturers, not unfair
14 prices. We note that in terms of calcium saccharin, at
15 least PMC seems to easily be able to compete, and we have
16 even lost some market share in 2002 to PMC who had sold
17 below our price. According to our customer, we are
18 currently enjoying even a slightly higher price at this
19 particular account than PMC.

20 Looking at the dumping accusation, meaning that
21 the Chinese manufacturers are exporting material below their
22 production cost, I do not believe this is accurate in the
23 case of Suzhou Fine Chemicals. Considering that about 90
24 percent of their production is exported to main markets such
25 as Europe, South America, Southeast Asia, India and the USA

1 at more or less the same price levels, it is rather
2 impossible that this company could have stayed in business
3 for decades losing money on these transactions.

4 Also, we have to carefully differentiate import
5 values from China into the United States and actual price
6 levels of this products to U.S. consumers. Considering that
7 there already is a 6.5 percent import duty for Chinese
8 saccharin and handling costs, which is terminal handling
9 charges, freight, warehousing, et cetera, that is pretty
10 significant. The head-to-head competition with PMC is not
11 at the import level, but at the distributor level. The
12 significant value is the actual price from the U.S.
13 distributors to the U.S. consumers.

14 As a conclusion, I believe that imposing an
15 antidumping duty on Chinese saccharin would not benefit PMC
16 since the Japanese and/or Korean producers could easily pick
17 up the Chinese market share again. However, it would
18 essentially hurt the U.S. consumers that would have to pay
19 higher prices than are available to other consumers in the
20 global economy.

21 The reason why PMC is losing ground is not a price
22 factor, but mainly a change in the purchasing philosophy of
23 multinational companies to a global purchasing system, a
24 factor that PMC seems to have ignored over the last few
25 years. I would like to back this statement up as follows.

1 If we look at the import statistics, up until
2 about 1999 the total imports from all countries into the
3 United States were more or less about 1,000 tons per year
4 with one exception in 1995 when the total imports were over
5 1,500 tons, which was caused due to a production problem at
6 PMC which caused imports coming in. This production
7 problem, without the imports, could have caused serious
8 damage to U.S. consumers if they couldn't have replaced the
9 product with imports. This was also a moment for many
10 customers to rethink their purchasing philosophy for
11 saccharin.

12 When I look at 2001, between 2000 and 2001 we see
13 an increase in imports from China of about 500 tons
14 additional in 2001 compared to 2000. Now, we see that
15 mostly attributed to only three large multinational accounts
16 that have decided to go global, and we can provide those
17 names in the post-hearing. Basically exactly that quantity
18 can be nailed down to only three multinational accounts, and
19 that is to back up my statement.

20 MR. PERRY: Wayne?

21 MR. RITELL: Thank you. Good morning. My name is
22 Wayne Ritell, and I am vice-president of sales for Rit-Chem
23 Company, Inc., in Westchester County, New York. We have
24 been an active importer and distributor of saccharin since
25 1984.

1 We first started with Korean saccharins, and then,
2 to be dually sourced, we also started purchasing Chinese
3 saccharins in the early 1990s. Quality wise, the Korean
4 material had been superior, but with Rit-Chem's careful
5 attention to the global quality that Fortune 500 companies
6 expect, the Chinese producers have upgraded their quality to
7 meet world class standards. These standards include minimal
8 impurities such as VOCs or volatile organic compounds and
9 material having no residual odor, besides meeting the USP-
10 FCC criteria.

11 In 1994, Rit-Chem was instrumental in proving that
12 Korean and Chinese saccharins were not cause of material
13 injury to the PMC organization. In this new century now of
14 worldwide internet chemical pricing and chemical reverse
15 auction pricing, we believe that the current 2002 PMC
16 petition is again without merit.

17 The reasons, from our point of view, is that, for
18 one thing, the entire chemical industry has been on not only
19 an economic downturn in the last three years, but probably
20 90 percent of every chemical we sell in the chemical
21 industry has come down significantly in price. In turn, our
22 customers' products have also been subject to fierce
23 competition in the recessionary global marketplace.

24 The result? Materials managers or purchasing
25 agents that demand lower prices. Their recent methods have

1 been through bids, and many times the first bidding is met
2 with second bidding. This practice drives down prices.

3 Also, many of the Fortune 500 companies we deal
4 with hire global or offshore purchasing agents who are
5 actually more aggressive than any Chinese seller. It is not
6 uncommon for myself or my salesmen to call on a saccharin
7 buyer from another buyer who also buys for the USA. Part of
8 their criteria is not only to get the lowest price, but
9 enact a program where all other countries that use
10 saccharins within their organization also enjoy that
11 approximate low pricing.

12 Also in regard to PMC's petition directed to
13 Chinese producers, we feel they are neglecting the now more
14 technologically advanced Korean saccharins plant that now
15 has some of the most competitive, high quality saccharin
16 globally. The fact is that if PMC succeeds to prohibit
17 Chinese saccharins from being globally competitive, the
18 Korean saccharin product will take its place.

19 Also, we believe that PMC has been out of the loop
20 in terms of pursuing global buyers. When we visit with
21 global purchasing agents, these purchasing agents never
22 mention PMC as a possible vendor. It appears that they are
23 a more regional or countrified producer rather than a global
24 player.

25 The new business paradigm is globalization, not

1 insular isolation. I add that this is why China is now in
2 the WTO. With the current saccharin business model and for
3 many different chemicals, the key to stay competitive is to
4 sell volume or what is now more commonly known as critical
5 mass. Also, yes, saccharins have come down in price like
6 all chemicals in the last few years, but, more specifically,
7 so have the other sweeteners that it competes with such as
8 aspartame, Aselphene-K and sucralose.

9 To conclude, I believe that PMC has not stepped up
10 to the plate in terms of plant efficiencies and a worldwide
11 business model for saccharin marketing to become a true
12 global player in a marketplace that is filled with more
13 aggressive buyers than sellers.

14 MR. CHAN: Good morning. My name is George Chan
15 and I am co-owner of Shanghai Fortune Chemical Company
16 which is a sodium saccharin producer in China. Shanghai
17 Fortune is 100 percent owned by a Hong Kong Company, Fortune
18 Manufacturing [ph] Ltd., holding company of Majestic
19 International Trading Company, Ltd. which in turn is owned
20 by --

21 We sell saccharin on a global basis. There is no
22 government involvement in our corporation.

23 We do not sell sodium saccharin in the U.S.
24 market. Our business is a high margin business that
25 requires very high quality material. We therefore only sell

1 calcium and insoluble saccharin in this market.

2 For Shanghai Fortune the United States is a very
3 special market that requires high quality saccharin. We
4 firmly believe that we are not injuring anyone.

5 As Karsen mentioned there are many differences
6 between sodium saccharin, calcium saccharin, and in
7 particular insoluble saccharin. Sodium saccharin is a basic
8 commodity product which is at the lower end of the saccharin
9 market. Sodium can be sold in crystal and powder, but
10 calcium saccharin can only be sold as powder.

11 In contrast to sodium saccharin, purchasers of
12 calcium saccharin are more conscious of quality and
13 therefore the product is higher priced.

14 Purchasers of sodium saccharin are usually located
15 in the food industry where people are more interested in the
16 sweetening aspect of saccharin. Sodium saccharin is often
17 further processed in the food industry. In contrast to
18 sodium saccharin, calcium saccharin is often sold as a table
19 top sweetener with no further processing.

20 In contrast to both sodium and calcium saccharin,
21 insoluble saccharin is not sold as a sweetener but as a
22 chemical intermediate. Insoluble saccharin, for example, is
23 used to produce pesticides by such companies as DuPont and
24 other agricultural companies. Insoluble saccharin is also
25 used as a feed stock of other chemical products.

1 As was also stated by Karsen, the saccharin market
2 is truly a global market which makes it more difficult for
3 PMC to compete. Both Suzhou and Shanghai Fortune have been
4 approved as supplier for Colgate Palmolive worldwide.
5 Suzhou is handling Europe and America and we are handling
6 Southeastern Asia including China for Colgate.

7 Colgate's purchasing department is in U.K. and
8 buys globally. Colgate buys globally because it makes for
9 easy delivery and less management costs. These large
10 multinational companies search for lower cost raw material
11 products such as saccharin in Asia. Not only China, but
12 also Korea and Japan. The Chinese are simply replacing
13 imported saccharin from other countries such as Korea and
14 Japan. Because of the higher raw material and labor cost,
15 China has been able to take market share from Korea and
16 Japan. If an antidumping order is placed on Chinese
17 material, however, the beneficiary will not be PMC I think,
18 but the Korean and Japanese manufacturers.

19 Chinese sector imports do not threaten injury to
20 the U.S. injury. Like Suzhou we export saccharin around the
21 world. We wish you to know that in China many saccharin
22 producers have shut down. Saccharin production in fact is
23 becoming concentrated in only a few companies and most of
24 them operate at higher capacity utilization rates.

25 Further, PMC is co-related to Razek [ph] which is

1 one of the larger users of saccharin for electroplating.
2 PMC therefore should not be injured in this market.

3 Thank you

4 MR. PERRY: Joan?

5 MS. NI: I name is Joan Ni and I am the President
6 of Suzhou-Chem USA, a subsidiary of Suzhou Fine Chemicals
7 Group, the largest producer of saccharin in China and the
8 world.

9 I was quite surprised when I was told by lawyers
10 that an antidumping petition was filed on July 11th by PMC.
11 Actually PMC was in negotiation with us, with our factory,
12 for a potential joint venture of saccharin only two months
13 ago. We thought the reason for entering into these
14 negotiations was that their equipment is too old and they
15 were looking for saccharin supplier from China. However
16 obviously their intention was to collect information from us
17 and to bring antidumping case against us.

18 I would just like to reinforce some of the points
19 made by my friend here. First, from my knowledge sodium
20 saccharin and calcium saccharin are sweeteners for food,
21 animal feed, beverages and pharmaceuticals. Sodium
22 saccharin can be used in metal finishing. Insoluble
23 saccharin, however, really is quite different. It is a
24 chemical intermediate and to my knowledge is used to produce
25 herbicides. It also can be raw material for sodium

1 saccharin and calcium saccharin.

2 Regarding Karsen's point about multinational
3 companies, we wish to point out that companies are now
4 buying for their global business. The purchasing person for
5 saccharin for Proctor and Gamble, for example, is located in
6 Guang Jo [ph], China, not in Cincinnati, Ohio.

7 Finally I wish to point out that Chinese exports
8 of saccharin do not threaten material injury to the U.S.
9 saccharin industry. Suzhou, our factory has no unused
10 capacity. Last year we operated at 93.7 percent capacity
11 utilization and for the first half of 2002, 96 percent
12 capacity utilization. Moreover, Suzhou saccharin sales to
13 the United States represent only 10.3 percent of total sales
14 and 11.6 percent of our total export sales.

15 In other words the United States is not our major
16 target, our major market, so we have no reason to increase
17 substantially our exports to the United States.

18 If you have any questions I would be pleased to
19 answer them. Thank you.

20 MR. PERRY: We're ready for questions.

21 MR. FEATHERSTONE: Thank you, Mr. Perry, and all
22 the witnesses for your testimony.

23 Mr. Na?

24 MR. NA: This is D.J. Na, Office of
25 Investigations.

1 Mr. Perry, in the '94 investigation the public
2 report cites a Chinese association of saccharin producers
3 which included 14 producers. The petition lists five
4 producers. How many are there in China?

5 MR. PERRY: I'll ask George to answer that, but
6 there has been a tremendous movement in China to reduce
7 saccharin production and to shut down some of the older
8 factories.

9 MR. CHAN: Currently there will be only officially
10 five manufacturers which is myself, Suzhou Fine Chemicals,
11 Tanjino [ph] and Tanji Cheinji [ph] and Kaifeng, so there
12 are five.

13 MR. NA: We have only received questionnaires from
14 three of those five producers. Do you anticipate responses
15 from the other two?

16 (No audible response)

17 MR. NA: Does all saccharin imported from China
18 meet FCC and USP requirements?

19 MR. KOHLER: I can answer.

20 I would say officially yes. I think it goes a
21 little bit into the direction that you just asked for, that
22 you just received only three responses from Chinese
23 suppliers. I think one of the reasons is because you really
24 only see one or two main suppliers of China in the United
25 States. The other ones are so insignificant that they have

1 no interest in the United States. Plus they probably still
2 have some production, not production, but quality problems
3 that they stay more in the domestic market.

4 So to answer your question I want to say that
5 product that is imported into the United States yet meets
6 USP and FCC requirements.

7 In '93, prior to '93, some problems with Chinese
8 material with respect to packaging, to caking, things like
9 this. More presentation of the product. Over the last ten
10 years I want to say that has been resolved and the product
11 is up to world standards, USP, FCC, yes.

12 MR. RITELL: Of the other two that were cited I
13 guess on the original petition, one of those companies that
14 we particularly imported from was the Tanji Cheinji [ph]
15 material and that material had black specks in it so we then
16 declined any further purchases from that company. So that
17 material, they tried to maintain good quality material but
18 it really came back down to the other three at that point.
19 We do no further business with Tanji Cheinji.

20 MR. PERRY: I'd just make a point. Suzhou and
21 Shanghai Fortune and Kaifeng represent the vast majority of
22 imports into the United States. The other two are really
23 small players and it's because of their quality problems.

24 MR. NA: I understand in terms of Chinese exports
25 to the United States. How about production in China? Is

1 that the same?

2 MR. PERRY: Yeah. I mean these two factories are
3 really very relatively small. George, would you have an
4 estimate of what the size of the other two companies are?

5 MR. CHAN: Can I answer this question after post
6 brief?

7 MR. PERRY: Yeah. We'll answer that in the post-
8 conference brief.

9 MR. NA: Sure.

10 Is the imported saccharin from China treated for
11 any further processing in the United States once it's
12 imported in this country? Or is it sold as is?

13 MR. KOHLER: As far as I know at least the sodium
14 and calcium saccharin is as is. There is no further
15 treatment. Insoluble different thing, but the sodium and
16 calcium as far as I know, no further processing.

17 MR. NA: You mentioned demand. Is it your
18 position that there is no, that the U.S. market has not
19 experienced higher demand and that market size in the United
20 States has not grown?

21 MR. PERRY: That's what these guys are telling me.
22 They're not seeing this tremendous upsurge in demand that
23 PMC is talking about. I'll just have Wayne comment on that.

24 MR. RITELL: I guess they had said they're seeing
25 that since the label came off. We can use that as a

1 starting point. I haven't gotten comments back from one
2 company that they're instituting a further look at saccharin
3 due to that label coming off. If anything, it's
4 displacement of suppliers, meaning that going out and doing
5 your job and trying to get sales and displacing either the
6 Korean, the Japanese or PMC, at least nationally.

7 MR. KOHLER: If I can add something to this, I
8 would say I would probably agree with PMC that maybe there's
9 a ten percent increase in total demand, but since '93 which
10 is more caused by general increases of more dietary drinks
11 for instance and so on, but had nothing to do with the
12 removal of the warning label as far as I can tell.

13 MR. NA: How do you respond to the fact that if
14 you look at the official import statistics, imports as a
15 total and also imports from China have grown dramatically
16 since '93 and also from 2000, 2001 after the warning label
17 has come off?

18 MR. RITELL: First of all in terms of the Korean
19 suppliers, they have greatly reduced their products coming
20 into the United States. I believe you're speaking about
21 Chinese products coming in or you mean total?

22 MR. NA: I was talking about both. Both in terms
23 of total imports to the United States and also imports from
24 China. If you look at the official statistics you can see
25 that imports of saccharin from China and also as a total

1 have grown dramatically.

2 MR. RITELL: In terms of the multinationals also,
3 they've done, in the last three recessionary years they've
4 done a lot of plant analysis. Some of the plants that were
5 in the Asian rim, South America, Europe, the United States,
6 Canada, et cetera, and in those cases where the global
7 purchasing agent was able to negotiate a price that was in
8 his company's favor, in some of those cases he might have
9 decided that the plant, for his efficiencies, that they want
10 to bring in and produce products in the United States plant
11 because he felt that should be economical for his
12 corporation and perhaps close down another plant in another
13 part of the world. So that might be an upsurge.

14 We don't believe it's really an upsurge in terms
15 of the actual huge global demand now. It's just that where
16 these plants particularly are, they've decided that this is
17 where they're going to do. Some of the large chewing gum
18 plants, for instance, have had plants, maybe 14 plants all
19 over the world and in the last three, five years or so
20 they've decided they want to reduce that down to six. The
21 United States being a chewing gum market, rather large, they
22 might have taken that production and put it here. So
23 therefore some of these sweeteners have been used a little
24 moreso in the North American side rather than perhaps in
25 another area of the world.

1 MR. KOHLER: I would like to add onto this.

2 I don't quite agree with the statement that total
3 imports have drastically increased except for last year
4 which I explained. But if you look at the statistics from
5 '93 onward, total imports are more or less around a thousand
6 tons per year, over the years, with one exception in '95,
7 and then again now in 2000, 2001.

8 What happened in between is that the Chinese
9 material has more replaced imports from Japan and Korea. So
10 the total imports into the U.S. have not changed that much
11 and the exception in 2000, 2001 I explained was basically
12 three multinational companies that decided to go for the
13 product.

14 MR. NA: I'll address the multinational company
15 aspect later, but just to get back to the import side, I was
16 just citing official statistics. It does reflect higher
17 imports both in terms of total and from China.

18 MR. KOHLER: Sorry, I'm also working off the
19 official statistics --

20 MR. NA: I'm sure Mr. Perry can help you with
21 that. He's probably a little bit more familiar with what
22 that means.

23 MR. PERRY: I just want to make one point here,
24 though. Understand that I think the point of shifting,
25 these multinational shifting production processes is very

1 relevant.

2 If a dumping order were to go on China, these guys
3 could easily shift the production that consumes saccharin
4 right across the border into Canada. There's no saccharin
5 producer there. Simply shift production over there and
6 start using Chinese saccharin over there.

7 I mean understand this happened in your old Indigo
8 case. Where you went affirmative, almost half the indigo
9 industry, the garment industry, has now moved down to Mexico
10 where they're using indigo dyes there from China. It's very
11 easy to do and they'll just shift stuff back and forth.

12 MR. NA: Maybe I should ask you this question. I
13 already asked the Petitioner this question. The Petitioner
14 states that the ATS subheading 29251100 is, saccharin is
15 classified under that ATS subheading. Do you also agree
16 with them that there are no other products other than
17 saccharin imported under that ATS subheading?

18 MR. PERRY: I don't know of any but I'll take a
19 look again and reply to that in the post conference brief.

20 MR. NA: The joint venture was mentioned. In the
21 post-hearing brief if you can elaborate on that in terms of
22 what that entails, maybe dates and any aspects of that you
23 can include and what information was exchanged between the
24 two companies.

25 MR. PERRY: We will submit some documents. PMC

1 made extensive plant tours of Suzhou in China three times
2 last year, making visits to China, and we'll give you some
3 documents from those negotiations.

4 MR. NA: Questions on the worldwide customers. Is
5 it your position that because there are two to three
6 worldwide major accounts, is it your position that PMC does
7 not compete on those accounts? Is it not willing to or does
8 not?

9 MR. KOHLER: There is more than two or three
10 multinational accounts. What I'm referring to with the
11 three accounts, multinational accounts is directly via
12 increase in imports from China into the United States in
13 2000 and 2001, specifically 2001 actually.

14 From what we see when we are competing on a
15 worldwide basis with multinational companies or for the
16 business of multinational companies we face more competition
17 from Japan and other Chinese producers and Korea than the
18 PMC name being mentioned there.

19 It appears that PMC is more driven towards a more
20 domestic market or maybe some other accounts, but we don't
21 really see them competing much for global business, meaning
22 shipments into for instance plants into South America and
23 into Asian countries where these companies have facilities
24 as well as well that they want to be served at.

25 MR. CHAN: Maybe I should add a little bit on this

1 worldwide part.

2 From what I know in these past few years China
3 growth has been tremendous. That's why it took so long in
4 the WTO to go away.

5 The problem now with the use of saccharin is
6 mostly like toothpaste companies, many toothpaste companies
7 or some daily [ph] chemical companies and some of the soft
8 drink companies.

9 The growth of the product much less increasing
10 every year. So next year, tendency to do that is more
11 worthwhile to go Chinese because if you buy from outside
12 China you have import duties. The import duties from in
13 China is much higher. So I believe they have after
14 calculations they say well, most of my chemicals I'm buying
15 from China. So is very critical that like P&G moved the
16 purchasing office to Guang Jo. As to sourcing in China, and
17 especially market in China.

18 Then after -- everything, then with the
19 globalization with more of, is more, makes sense when they
20 do globalization, they just like China.

21 MR. NA: Just to clarify. Are you trying to say
22 that because of PMC's lack of competition with worldwide
23 account that they have experienced reduced sales in the
24 United States?

25 MR. CHAN: Well, I don't --

1 MR. PERRY: Yes, that's what we're saying. I
2 think the point here, and I want Wayne to make this point is
3 what the multinationals are doing is they're playing off
4 competitors and countries.

5 For instance, if you go to the worldwide
6 purchasing manager for Colgate or for P&G he'll say you're
7 selling me at this price in the United States but I can get
8 this price in South America and I can get this price in
9 Korea where I've got facilities. We want to go on a
10 worldwide basis and we want to try and make sure that we can
11 keep our raw material prices about the same. Obviously if
12 we can't, if the raw material prices spike in a place like
13 the United States, then we think about shifting production.

14 We're building on a global basis where these
15 multinationals have 25 plants in different parts of the
16 world so the issue is are they going to source here or are
17 they going to source somewhere else? If raw material prices
18 change here, well, maybe we'll move the production to our
19 plant in Canada. And I'm sorry, I've seen this in case
20 after case after case. That's not just happening here. It
21 happened in the Indigo case already. It happened my Glycene
22 case. Production was shifted as a result so people lose the
23 chance to sell these products in the United States because
24 the production is shift, and by the way, the jobs go to
25 Canada.

1 So it's not just a simple idea of let's look at
2 the United States in isolation. You can't do that any more
3 because it's too global.

4 Wayne?

5 MR. RITELL: Yeah, I'll tell you that's exactly
6 correct.

7 It appears that PMC's deficiency that I see is
8 that they are not a global player and that the business
9 trend out there is exactly that, globalization.

10 When you have the P&G buyer in Guang Jo China and
11 you have the Colgate Palmolive buyer in the U.K. and such
12 areas around the world, they look at the pricing that is
13 submitted to them throughout the plants.

14 It is also common that we would get a big bundle
15 of papers to bid on from these companies that have maybe all
16 these sites, and then you have to give a price, let's say
17 CIF, Buenos Aires, Argentina; CIF Antwerp; CIF Barcelona.
18 All over the world.

19 As the seller, when you get that paper and you
20 look at it, even you start thinking that my goodness, I
21 can't really put the price over in this country that much
22 higher than that one because this global purchasing agent
23 goes why is that higher? Why is that price higher than it
24 is over here? This is the way they think.

25 So normally we price it as fair as we can. And

1 many times, because a lot of times this dumping petition is
2 about tariffs, we price it on a CIF basis because in not all
3 the countries around the world do we know the duties. So we
4 price it so that at least on a basis of our raw material
5 price that it's fair for these multinationals to take that
6 price and then say okay, at least the plant in South America
7 won't be so much more uncompetitive than the one in Europe
8 or what have you.

9 Now in regards to my relationship with George Chan
10 and Majestic, in the last couple of years where I was
11 calling on Colgate Palmolive in New York City. My pricing
12 there was, let's call it X so that we don't get too
13 specific. WE can do that in a post-conference brief if
14 you'd like. This was the national buyer.

15 Now George, who calls on Europe and was calling on
16 Colgate Palmolive in the U.K. who is the global buyer who is
17 over the USA national buyer, when the gentleman from New
18 York City told him what I quoted him in the United States
19 and then George went and visited him, he said oh my God, I
20 need, these are European prices here. I need X minus Y or
21 you're out. I need X minus Y in the U.K., I need it in the
22 Asian rim, I need it in North America, I need it in South
23 America.

24 So where PMC is trying to direct pricing
25 aggression on the Chinese sellers, there's a lot more

1 aggression on the buyers out there than you would ever want
2 to believe.

3 Now this type of pricing data is further
4 exacerbated by the Internet. There will be a date set, and
5 these companies will also -- some of them, not all of them -
6 - they will tell you on this particular date I want you to
7 go on the Internet. There's going to be an Internet
8 auction. Oh boy, that's nice. You know what? It's a
9 reverse auction. It's not an auction up, it's down. And
10 the interesting thing is that in one of the cases with
11 saccharin where we felt that the auction was going to be
12 about 45 minutes to an hour long, we had a price based on
13 some volumes that we thought would be fair, so we waited out
14 the first 20 minutes of the auction, figuring that when it
15 went into the point where we thought we could compete we'd
16 put our price in. But it starts high and then it goes low.

17 There was, and I'm not kidding, there was maybe
18 only a minute or two, it hit the price where we were going
19 to punch it into the keyboard and it went lower than our
20 lowest price within two minutes.

21 Even if a company isn't participating in that
22 Internet reverse auction, they can watch it and they can see
23 what's going on so at least they can get an idea of what's
24 going on globally.

25 So this information is very free, it's very open,

1 and in order to play or sell saccharin now in the global
2 marketplace you have to be a global player and be able to
3 compete. So that's the reality of it.

4 If you're a company who wants to more or less just
5 stay on a stateside basis, although I respect it as an
6 American, I have tell you that at this point it's an
7 antiquated system based on the globalization of the business
8 marketplace.

9 MR. NA: Thank you for your response.

10 I just have one more question. The Petitioners
11 claim that Suzhou added capacity. If you would be able to
12 respond to that now or in the post-conference brief I'd
13 appreciate it.

14 MR. PERRY: We'll do that in the post-conference
15 brief.

16 MR. NA: Thank you.

17 MS. HUGHES: In the previous saccharin
18 investigations there was an issue with respect to like
19 product in which it comprised a like product. And since
20 there are three or four different grades of saccharin if you
21 could tell us, and you can do this in the post-conference
22 submission if you like, if you believe that the Commission
23 should again find that there is one like product comprised
24 of the four grades. And also if you could, well, back to
25 that point.

1 Something I heard made me think that perhaps a
2 semi-finished analysis may be appropriate because I heard
3 something about an intermediate product, and I certainly
4 don't understand how that factors into the equation. But in
5 giving us your answer, utilize the traditional six factor
6 analysis, and if you think the semi-finished analysis is
7 appropriate, please detail that as well.

8 Of course we'd like to know whether you think
9 aspartane and any of the other substitute sugar sweeteners
10 should be considered part of the domestic like product as
11 well.

12 Do you believe that there is a business cycle
13 involved with --

14 MR. PERRY: Could I just respond to that first
15 point?

16 MS. HUGHES: Certainly.

17 MR. PERRY: I think that in light of what happened
18 in the last investigation, we will not be arguing that
19 aspartane should be considered a like product as saccharin.
20 But definitely we raised up all these issues because they're
21 definitely conditions of competition in the market which the
22 Commission has looked at.

23 The one different animal that we are wrestling
24 with is insolubles. It was not until I talked to these guys
25 yesterday and say well maybe we do have an argument here on

1 the insoluble because it seems like it's used as a chemical
2 intermediate, and this is the first time, I didn't hear
3 Joan's testimony before that it's used as a feed stock for
4 the other calcium and sodium saccharin. So we'll look at
5 that in the post-conference brief.

6 MS. HUGHES: Thank you. And as much detail as you
7 have on that. I understand you're just hearing this, but it
8 would be really helpful if we could flesh this out in the
9 preliminary investigation.

10 I had asked -- Sorry.

11 MR. CHAN: I wanted to add something about the
12 calcium.

13 As my friend here Karsen, I know him one day, very
14 best friend though. (Laughter) As he was mentioning that
15 Sweet & Low of Cumberland was using the calcium due to the
16 warning label. I thought it was a very interesting
17 phenomena that if this is only based in the warning label
18 with so low prices, why does it convert back? There's no
19 more warning label. So actually is the quality that
20 Cumberland packaging or the Sweet & Low are looking for. So
21 I don't think is really the quality that they are interested
22 in. Otherwise you can say oh well, you can make extremely
23 good grade of sodium saccharin for maybe 10, 20 percent
24 higher in price -- calcium. So I am trying to make this
25 point to distinguish. Thank you.

1 MR. PERRY: The point again is that Cumberland
2 seems to be using only calcium saccharin and it's become
3 almost traditional with them. So Shanghai Fortune is in
4 kind of that niche market which is a little higher, the
5 sodium saccharin is kind of the bottom, low grade, and the
6 calcium is much higher quality, and then you get into the
7 insoluble. So it's almost like different market niches
8 here.

9 MS. HUGHES: Okay.

10 In view of the like product question I just posed
11 to the Respondents here, if the Petitioners in looking at
12 this issue of insoluble saccharin think that a semi-finished
13 analysis might be helpful to the Commission, I'd ask that
14 they'd explain it in their post-conference brief as well.

15 Petitioners had stated that they don't believe
16 there is any particular business cycle in play here. Do you
17 agree with that assessment?

18 MR. PERRY: They made the same argument in the '93
19 to '94 review and I'll be citing back, in fact the staff
20 report which basically in the '93 to '94 investigation came
21 out and said, as the pre-hearing staff report, the decline
22 in total imports in U.S. producer shipments correspond to a
23 decline in saccharin production, consumption from 1991 to
24 1993. Now that's different, but he says the decline
25 coincides with the general recessionary period worldwide.

1 What is really going on here is you may see prices
2 going up but you do see, I mean you may see imports going up
3 but you certainly see prices going down and it's going down
4 with all the chemicals worldwide. This is a recession,
5 whether we like it or not, and it's having an effect.

6 PMC was saying, argued again in '93 to '94 that
7 somehow saccharin is insulated from the entire world and it
8 has no impact, a recession on them, and we think it does.
9 WE think it definitely has to be part of the Commission's
10 analysis. It was part of the analysis in the last case.

11 MS. HUGHES: Thank you.

12 In your post-conference submission or here if
13 you'd like, if you could evaluate the relevant economic
14 factors beyond, if you deem there are any beyond general
15 economic trends such as recessions and that sort of thing
16 that the Commission has to evaluate the conditions of
17 competition. You've mentioned some. If you think there are
18 any others that are noteworthy please give us details on
19 that in the brief.

20 Also please address in as much detail as you can
21 the volume, price and impact factors that the Commission
22 evaluates in making its injury determination, or reasonable
23 indication of injury determination. The same with the
24 threat factors the Commission must evaluate.

25 Thank you.

1 MR. LEVY: I'd like to address the substitute
2 product issue a little bit. The Petitioner has basically
3 made the argument that aspartane and some of the other
4 sweeteners aren't very good substitutes, and one of their
5 arguments was that oftentimes the sweeteners are used in a
6 particular blend to come up with a particular taste. That
7 it's not so much a function of price.

8 How would you respond to that argument?

9 MR. PERRY: I'll ask Wayne, but at the break he
10 mentioned to me that the blends he's been seeing don't
11 include saccharin.

12 MR. RITELL: To answer your question fully and so
13 you know a little bit more about the background of sales of
14 my company so you know where I'm coming from. I sell sodium
15 saccharin granular, I sell sodium saccharin powder, I sell
16 calcium saccharin, I sell aspartane, and I sell Aselphane K.

17 Now in regard to the blends, probably one of the
18 most significant blends out there today is aspartane and
19 Aselphane K. That is probably, and in technical bulletins,
20 this is probably the closest that you can get to a sugar-
21 like taste.

22 There's a certain taste that the Aselphane gives
23 once you put an object in your mouth and what have you that
24 gives you that first sugar-like taste and then the aspartane
25 carries it out in the end.

1 Of those two products, we've seen the prices of
2 both of those products come significantly down in the last
3 three years or so. So we do believe that that particular
4 blend, and also with Xylatol is probably a very interesting
5 blend for the consumer in terms of the taste of what
6 consumers are looking for.

7 Did you have another question regarding that?

8 MR. LEVY: I guess the question would be when you
9 talk about this aspertane/Aselphane blend, is that taking
10 sales away from saccharin? Is that something, is that
11 competing with saccharin in the products at issue?

12 MR. RITELL: That's a good question. I'd say
13 we're not seeing the customer asking us about saccharin for
14 saccharin blends at all. I haven't had one.

15 However, in regards to the marketplace where you
16 have products where you want to put the AseK/aspertane in, a
17 lot of those companies in particular, where if they have a
18 regular, let's call it stick gum, but at 25 cents a pack,
19 they will manufacture a pack of what they call the gum
20 tablets which will cost maybe 80 cents a pack. So the
21 consumer is willing to pay more for a product that is better
22 tasting.

23 So in regards to the saccharin, the saccharin's
24 pretty much, as far as I see it, passe and there's not a new
25 generation product.

1 MR. KOHLER: If I can just also add on to that,
2 not specifically for the blends, but if you're asking if one
3 or more of these products cut into the market share of
4 saccharin I have to say yes, because just go to any of the
5 restaurants for sure, you have on the table the pink
6 packages, the blue packages, and sugar. And probably in the
7 near future you have this blend of the yellow packages as
8 well. So in that segment of course it's competition.

9 Although it's certainly different products, but
10 it's for the same applications there.

11 MR. LEVY: Maybe this would be in the post-
12 conference brief, but if you could give me some idea of how
13 much that market would represent of the total saccharin
14 market.

15 And kind of the same issue, I guess aspartane, one
16 of the primary uses is in the soft drinks and I read
17 somewhere there is a difference between the soft drinks in
18 the cans and bottles versus the fountain drinks. I guess
19 aspartane was good in the cans, but I guess it degraded?

20 MR. RITELL: The aspartane is perhaps not as
21 stable over time, so now with the new advent of like born
22 dates on sodas and things like that, or expire dates that
23 they're doing, basically what they're indicating is that may
24 not last long.

25 But with the now mixes of the aspartane, AseK or

1 just AseK or just sucrose, the stability factor has been
2 enhanced and lengthened quite a bit.

3 In regards to the AseK, that is a particularly
4 interesting product because you can heat products with the
5 artificial sweetener AseK in there up to 450 degrees
6 fahrenheit without seeing decomposition of the sweetener
7 itself. So that sweetener alone will have an impact on the
8 saccharin in regards to consumers of the stability of other
9 goods, other than soda. Because in a lot of cases the
10 saccharin and the aspartane have been compared more on the
11 diet sodas. But there's a whole new array of products now
12 that can be used with the Aselphane K.

13 MR. LEVY: Just a quick, in your post-conference
14 brief any information that you could give us on the relative
15 prices of aspartane or some of the other sweeteners, that
16 would be helpful.

17 I guess, I think Mr. Ritell or maybe some of the
18 others addressed the quality differences. If you could
19 just, I guess in the earlier case it was more of an issue
20 that there were quality differences between the Chinese and
21 U.S. product. That's not so much the case today?

22 MR. PERRY: Yeah, I don't think it's so much the
23 case today. Wayne was telling me, and I'll ask him again,
24 they worked very hard with the Chinese to improve their
25 quality not because of PMC but to get them over the Koreans,

1 because the Korean quality was so good. In fact Wayne
2 mentions, what is it JMC?

3 MR. RITELL: I would say on the world market from
4 our findings, and again I want to use the term world market
5 because that's truly what we experience out there in our
6 sales. I would have to say that in the '94 case it was Jau
7 Musun Company [ph] or JMC, but they are not Xinghua JMC.
8 And frankly from what I've seen as a world standard, their
9 material is the best in the world and has been the best
10 material in the world that we had to attain, not PMC's. And
11 then many of the diet beverage companies, a lot of them also
12 use that material as the standard.

13 Now in terms of not just quality but when we have
14 to gain new customers, you have to go through a whole array
15 of steps to get those new customers, especially Fortune 500
16 companies. They look at the specifications, then they look
17 at the chemical characteristics, then they look at any odor,
18 then they look at impurities, then they test the product,
19 bring it thorough a taste panel and things like that.

20 That's just to get your product approved.

21 Then as we have experienced with a few of the
22 Fortune 500 companies, then we have to go through the
23 pallet. WE've actually had to ship products to a company
24 and they give us a purchase order and tell us that all we
25 want to do is look at what your pallet looks like and what

1 your bulk bag is like and see how the delivery comes in.
2 And frankly, Wayne, we're actually going to return those two
3 pallets to you after we test them. We just want to see what
4 it comes in like so that when we buy it in 20,000 kilo
5 increments, that we know that it will come in fine.

6 Just recently with Joan Ni, I came into my office
7 and a big box was delivered to my office. Everybody was
8 asking me what was in it. It was a bulk bag. It wasn't
9 saccharin. It was a bulk bag to make sure that the quality
10 of the bulk bag was what my customer wanted, not just the
11 saccharin inside of it.

12 This company and others have also had Rit-Chem
13 install a \$10,000 barcode system inside our computer
14 software.

15 These are the things that I don't believe PMC is
16 coming and stepping up to the plate to be doing. There are
17 deficiencies in that company that go far beyond the pricing
18 of saccharin from the Chinese.

19 We are selling what our customers want and what
20 they need for the 21st Century, and we will do that and we
21 will continue to do that. WE do feel that in terms of an
22 August 2002 dates to customers, that PMC has just not
23 defined what the customers want and where they want it and
24 the pricing that they want to have those companies stay in
25 business in the global locations that they use saccharin.

1 MR. KOHLER: I can only underline that really with
2 the costs involved for a manufacturer today to approve a
3 product that they are already using, in this case saccharin,
4 they will tell you 50,000, 100,000 minimum savings right off
5 the bat, otherwise they will not be able to even look at the
6 product because of what Wayne has just described. It goes
7 into plant inspections into China, wherever they need to buy
8 it from, where they have to send a team in to inspect the
9 facility, make sure that their auditors agree that the
10 product or the facility is CGMP, so on, so forth, and plants
11 try on a small scale which certainly costs in terms of
12 product, in terms of manpower, and that's why it's not just
13 a prospective number that they throw at you, but this is
14 really something that they need to look at before they can
15 say all right, we evaluate your product.

16 That also explains why sometimes, especially in
17 this league, has to be at a very very competitive price to
18 even have a slight chance to enter into some business there.

19 MR. LEVY: I just have a final request. Mr.
20 Ritell was referring to the Internet reverse auctions. Any
21 information you could provide in the post-conference brief
22 concerning those would be helpful. Thank you.

23 MR. LAND: I just have one question. There was a
24 mention made of the use of insoluble saccharin for
25 production of herbicides. I don't know if you want to talk

1 about that now, but if you can provide any information as to
2 which share of the market that is, that would be helpful.

3 MR. PERRY: I can tell you that we'll talk about
4 one of the largest buyers from Suzhou sells solely in the
5 pesticide market, which really surprised me. This is a very
6 different area, and a lot of it's insolubles. But we'll put
7 some more stuff on that in the post-conference brief.

8 MR. LAND: Thank you.

9 MS. NOREEN: Bonnie Noreen, Office of
10 Investigations.

11 In terms of powder versus solutions, do you sell
12 in solutions? Or do you sell powder only?

13 MR. PERRY: I don't think we sell any liquid.

14 MR. RITELL: No, I don't sell any liquid because
15 it would be more or less too expensive to import the water
16 portion into the United States rather than the solid. We
17 also have no facility to take the solid and fivalize [ph] it
18 in a big vat or blender or what have you.

19 MR. PERRY: We had an interesting discussion last
20 night about solution, and they were saying that the liquid
21 is usually used really, it's the electroplating industry.
22 PMC has a related company that produces electroplating, so
23 there's dealing going back and forth that way. But that's
24 really the one area where the liquid is used is the
25 electroplating, right?

1 MR. RITELL: As far as I know that's the only area
2 that I've been aware of in the marketplace that it's used.

3 MS. NORREN: I know you're going to be providing
4 this information, Josh asked you for it, on anything
5 involving the Internet. The reverse auctions. I know you
6 described this one reverse auction that you were going to
7 jump in on and you ended up not because it went too quickly
8 through your price, did I understand that correctly?

9 MR. RITELL: Yes.

10 You know that the auction's coming. You know
11 because they tell you. They give you the date and the time
12 and everything. It was just our choice to say here's our
13 bottom. We knew what our bottom was before we entered the
14 site with a number. You actually could enter the site with
15 X and then go X minus Y then you can go X minus Y minus Z if
16 you want. You can play as the numbers are coming in.

17 But I think the disparaging part of it was that
18 even at our bottom that we thought was reasonable, that it
19 went right through that price in a minute or two and went
20 lower. So it's an example of, again, of this globalization
21 business model that's going on, and that's just one example.

22 WE do visit customers and sit with them and they
23 tell us and advise us of offers that they get to get those
24 bids I was telling you about. There's companies that give
25 bids and then say well, that's the first round of bids.

1 Guess what, guys, there's a second round. Then you get that
2 too.

3 So there are all forms of means that the global
4 purchasing agents are using to drive down the prices where
5 they want to see them for their products, too. Because as I
6 said, there are other sweeteners that they can select, so
7 they have a certain business economic model for their
8 products and saccharin's in that and they want to see it at
9 a particular level globally for them to survive with their
10 product lines.

11 P&G, for example, they used to, before the
12 recession, they would have a line of different toothpaste
13 and products on the shelf. Now they've gone into a consumer
14 product reduction of products actually. So instead of
15 having the same products with ten different products of
16 those products, they now have reduced that maybe by 40
17 percent to have different products, so they can stay
18 competitive globally against Unilever.

19 MS. NORREN: How many instances have you seen of
20 these Internet type competitions? Just one, or --

21 MR. RITELL: Do you mean regarding saccharin or do
22 you mean --

23 MS. NORREN: Saccharin.

24 MR. RITELL: We've seen one with saccharin and we,
25 this is very interesting, we've seen it with other

1 chemicals, but one of the major companies in the last six
2 weeks or so said to Rit-Chem that after they approved the
3 sodium saccharin which I get from Suzhou, after we did the
4 pallets, after we got the bulk bags, after we did all the
5 barcodes and everything else, we get a message out of the
6 global purchasing agent from China that for 2003 we'll be
7 conducting a reverse auction. Frankly, we knew that
8 massive, massive pricing damage was going to occur, and
9 after all the efforts that Joan Ni and Rit-Chem and my
10 personnel did at this account, we felt a little shaken by
11 it.

12 In fact I had my salesman call P&G and tell them
13 that, and I quote, "We prefer not to participate in the
14 reverse auction." The buyer called back and they were quite
15 understanding as to our position, and we told them that
16 look, we've done about a dozen things for your corporation
17 and now you're going out and you're saying that well, let's
18 do a reverse auction now. To date I want you to know that
19 we have not participated in that reverse auction for that
20 company. I do think that they did listen to us as to the
21 points that we made, very legitimately, about how we had to
22 gain their business, and they decided, at least through
23 today, we haven't heard that they're going to do the reverse
24 unction. They might end up doing it, but as I said in my
25 testimony, a lot of this price erosion is also occurring

1 from this global buying in. That's where we're seeing a lot
2 of it. Not from massive aggression from Suzhou or Shanghai
3 or Rit-Chem or HELM. We're really not seeing it that way.

4 MR. CHAN: I want to add something.

5 As I was talking to Colgate about this last year,
6 well, one or two years ago, they were mentioning that they
7 want auctioning, but again they don't -- I think -- Well put
8 it this way. I think, this is what, in my testimony I was
9 cut out of the sodium saccharin business. I was cut off,
10 more concentrating to the higher end niche market. Because
11 I think the commodity, has become very commodity, the
12 saccharin, and next thing you know if you have enough
13 sellers or you call it the seller, what they do is they just
14 go on auction. In that case they get the best, best, best,
15 best price because when you have an auction you are
16 reversing the effects. It's not somebody bidding for the
17 best price, but who is bidding for the most quantity.

18 I think P&G, Colgate, all the biggest ones,
19 especially in the globalization people, they will do that.

20 MR. PERRY: That's one point I think that's been
21 missed. Why are you going on a global basis? Because
22 you're going on a global basis because you're talking about
23 massive quantities. And when you buy massive quantities you
24 get a lower price.

25 So if the global purchasing guy is saying okay,

1 I'll buy your stuff but it's for 14 plants worldwide. What
2 do you think the price is going to be? It's going to be a
3 lot lower than if you're buying for just the United States
4 because it's the world you're talking about. This is
5 massive quantities.

6 MR. RITELL: I would say that that's the trend.
7 The positions of purchasing agent, materials manager, a lot
8 now because I travel globally, I call on a lot of global
9 purchasing directors. I'm seeing that more and more with
10 the Fortune 500 companies. And yeah, we educate them the
11 best we can but a lot of times they have their own reports
12 of where the low prices are in saccharin and where they can
13 get it and what they're going to do about it in their
14 particular plants dotted around the world.

15 So we're mainly trying to participate in that high
16 volume buying. Because what happens is even though my
17 company is USA based, if I don't participate there's no
18 chance that I'll get it in the United States because the
19 company that participates in the global program, he'll get
20 it. That's why we want to participate in these type of
21 programs.

22 MS. NOREEN: Mr. Kohler, you're an importer,
23 right?

24 MR. KOHLER: That's correct.

25 MS. NOREEN: And Mr. Ritell, you're an importer,

1 correct?

2 MR. RITELL: Yes.

3 MS. NOREEN: And Ms. Ni, you're an importer?

4 MS. NI: Yes.

5 MS. NOREEN: Is it the importer who qualifies the
6 product from the different producers in China, or is it your
7 customers, your individual customers, who qualify the
8 product from the importer?

9 In other words, is it each one of your customers
10 who has to pay this \$80,000 to \$100,000?

11 MR. KOHLER: Right. Yes, that's correct.
12 Typically today large companies, you know, if you're talking
13 about somebody like Colgate, it's not like they say oh, HELM
14 is such a great company. We trust whatever we do. They
15 want to know where do we get the product from. They want to
16 have the manufacturer approved, not the distributor. It
17 goes hand in hand.

18 You know, we usually visit factories, for
19 instance, in China, or it could be in Europe, it could be
20 anywhere, to introduce to a customer. They have to feel
21 comfortable with the manufacturer, and then we all together
22 go through the approval process.

23 To answer your question, yes, it would be an
24 approval for each company or customer, not that HELM is to
25 just shell out that money and approve somebody. It's the

1 customer, the final consumer, who has to make that approval.

2 MR. RITELL: And if I could add to that if you
3 don't mind? A lot of the companies now have made agreements
4 within their companies that if we approve it in Europe then
5 it's automatically approved in the United States.

6 That's different from maybe ten years ago where it
7 was a little bit more secular. They would say no, no, no.
8 We don't know, you know, if the United States can use it
9 because we have it here. Now they are all sharing
10 information on e-mail with each other and, you know,
11 advising them of what they found.

12 What they're trying to do really is with
13 globalization is they're also trying to have products that
14 are very, very similar all over the world. In order to do
15 that, you really have to have a saccharin that performs the
16 same in the product in Europe as it does in the United
17 States.

18 MS. NOREEN: When you talk about global and about
19 the companies getting together and talking to each other and
20 deciding that if it's approved in Europe it's okay in the
21 United States, too, you're still talking, aren't you, P&G in
22 the United States and P&G in Europe? You're not talking P&G
23 in Europe and Joe Schmo Chemical Company in the United
24 States?

25 MR. RITELL: It's always the same. It's always

1 the same company. They're not going to share that
2 information with Unilever or somebody like that, no.

3 These are big, big companies who have a lot of
4 plants, so it's in their best interest to try to share that
5 information because would you like to pay \$80,000 two,
6 three, four, five times? No. You want to pay it one time
7 if you can. That's why they try to share information, but
8 within their organization only.

9 MS. NI: Can I say something? I forget if it was
10 P&G or Colgate. Years ago the European people came to our
11 factory for like an audit years ago. The U.S. part don't
12 have to do the same thing. It's qualified. Maybe they just
13 send you some questionnaire. Much, much less work.

14 MS. NOREEN: I don't know what you may want to say
15 publicly about your dealings with PMC in this joint venture,
16 but if you want to say anything publicly, fine.

17 MS. NI: Sure. Yes.

18 MS. NOREEN: If not, if you could elaborate on it
19 in the post-conference brief?

20 MS. NI: I met PMC three times. The first time
21 was this is 2002. 2001. Probably 2000. In 2000. Okay.
22 What times? The first time I was in China, and PMC visited
23 us. I think at that time they probably wanted to buy from
24 us, I think, and they looked at our factory, the plant and
25 the water treatment, which is environmental water treatment.

1 Then probably in 1996 or 1995 they bought one
2 container from us of sodium saccharin, but at that time we
3 had a problem. We had a black spot in the container. We
4 didn't do it on purpose. It just happened because in the
5 summertime we don't have the screen on the window. We
6 really wanted to sell to them because they were the biggest
7 one. They had all the market share, and also we wanted to
8 sell to them. Unfortunately, there was a black spot, a
9 small fly into the saccharin. Then it stopped.

10 Our president in China visited PMC in Ohio, Rocky
11 River, three years ago in that was 1999 or 2000 maybe. Then
12 in 2001 when my boss came here, I also went with him to
13 Cincinnati. This year at the end of April we had a meeting
14 in Los Angeles with their president. That's the meeting I
15 had.

16 PMC also visited our factory like on a visit, and
17 they had the meetings at our factory. I know last year they
18 visited three times and the year before maybe once or twice.
19 They showed some kind of cooperation in a joint venture.
20 That's it.

21 Also, I think we sent them a sample of insoluble
22 saccharin, and they bought ten tons of insoluble saccharin
23 from us last November.

24 MS. NOREEN: Again, this can be in the form of a
25 post-conference brief, but was the purpose of the

1 negotiations for the joint venture to establish or produce
2 some joint company to manufacture saccharin, or was it for
3 you to supply product that they would then market either
4 under their own name or under some joint venture name to
5 some third location?

6 What exactly was the purpose, I guess, of the
7 joint venture?

8 MS. NI: I think the purpose is PMC wants us to
9 have a joint venture to like do the sales in the United
10 States like joint ventures sales. The joint venture sales
11 in the United States to the end users was the purpose.

12 MR. PERRY: Would PMC's label be on that?

13 MS. NI: I don't think we talked about a label.

14 MR. PERRY: Again, I've seen this in a number of
15 cases. It may have been real, but it certainly looks like a
16 sham. I see it in a lot of cases where Petitioners will go
17 out and visit the potential targets of a dumping case and
18 "enter" into joint venture negotiations and then walk
19 through the plant, look at the whole production facility,
20 and then two months later we have a dumping petition on our
21 steps.

22 Again, all is fair in love, war and trade cases,
23 but I think it's worth it for the Commission to know that
24 that's what happened.

25 MS. NOREEN: Thank you. I have no more questions.

1 Thank you.

2 MR. FEATHERSTONE: Mr. Ritell, was that internet
3 auction by invitation only, or do you know whether only pre-
4 qualified suppliers could have bid? Were there any
5 conditions like that?

6 MR. RITELL: There was one a while back, but the
7 most recent one where we said that we didn't want to
8 participate, that was done by P&G to Rit-Chem. I'm sure
9 that they gave that to others. I don't know who the other
10 players are.

11 Now, the other thing that you should know with
12 this internet auction is you don't know who the players are.
13 It's very elusive who's participating. If P&G doesn't tell
14 us who was invited to it, which they probably wouldn't, when
15 you go on the computer and you go on the screen for the
16 internet auction, you really don't know who's participating.
17 You just see numbers.

18 See, what they do is they go through like an
19 internet managing company. The managing company knows who
20 the players are. You have like an ID code. The code goes
21 in, and then as you go in all it is is the winner would be
22 known at the end with a code. That code would then be told
23 to P&G who that is.

24 If I may, the unfair part is that we don't even
25 know who wins it.

1 MR. FEATHERSTONE: Do you know if anyone won?

2 MR. PERRY: Of course. There's always a winner.

3 MR. FEATHERSTONE: They did award?

4 MR. PERRY: Well, not on this last one because we
5 didn't participate, but the one a year or so ago, yes. It
6 was awarded. Now, I don't know who got it, but that's the
7 illusory part of, you know, this type of business.

8 MR. FEATHERSTONE: Yes.

9 MR. PERRY: You don't even know who it is.

10 MR. FEATHERSTONE: We've had the experience with
11 some of them where only companies that have been invited to
12 participate to begin with, presumably pre-qualified to
13 supply product with them, are eligible.

14 MR. PERRY: That's right.

15 MR. FEATHERSTONE: As you say, you don't know each
16 other who it is.

17 MR. PERRY: You don't. If I can just further
18 elaborate on that? I think you made a good point there.

19 In the P&G case, we knew that we were invited
20 because we're approved. Now, did they invite others who
21 weren't approved? I don't know, but I do want to make a
22 point.

23 About a year and a half ago -- we have a product,
24 a salicylate product, that we sell for sunscreen. We were
25 invited into that internet, into that reverse auction, and

1 we were not an approved vendor.

2 When I talked to my colleagues about it, because
3 it is a Fortune 500 company that invited us in, I said to
4 the guys, look, let's go in on the internet. Let's check it
5 out. I want to see, number one, how it works. We worked
6 through that management company, who was calling us like
7 almost every day to set it up.

8 The interesting part about it is that I had a
9 meeting before the auction. I said to the guys look, we can
10 win this thing, but this company hasn't approved our
11 salicylate. We called up the company before it started, and
12 we said, you know, how are you going to work this out?

13 Mr. Ritell, we're really only interested in the
14 most competitive supplier in the world of this product, and
15 we'll approve. If you have the lowest price, we'll approve
16 your product on an express track approval for you. That was
17 their answer.

18 MR. FEATHERSTONE: Thank you very much.

19 Mr. Hartquist, five minutes? Ten minutes? What
20 would you like?

21 MR. HARTQUIST: We're ready right now.

22 MR. FEATHERSTONE: You're ready right now. We'll
23 charge ahead.

24 MR. HARTQUIST: Thank you, Mr. Featherstone. One
25 thing that certainly has become clear in the discussions

1 today is that price competition is very fierce, very intense
2 on this product. This is an issue that in some cases we
3 have to go to great lengths to prove. It's sure true here,
4 and I think Respondents agree with us on that.

5 I want to comment for a moment about PMC as a
6 global player because I think you're really hearing some
7 information that is not correct about the company. PMC is a
8 major global player in chemicals. PMC has factories not
9 only in the United States, but in Spain and Germany, in
10 Russia. They know how to sell products globally. They do
11 it every day.

12 There's no reason for them to make saccharin
13 outside of the United States at this point because they have
14 the capacity to produce it here, and they believe that they
15 are a very efficient and competitive producer with anybody
16 in the world based upon fair pricing.

17 PMC's marketing manager competes on a daily basis
18 from their offices in Cincinnati, Ohio, for business at
19 Colgate in England where their central purchasing is
20 located, with P&G in China. Telephones, e-mails. You all
21 know how it works these days. It's instant communication
22 around the world, and the issue is price. PMC sells in bulk
23 bags all forms, all products, and it's really just nonsense
24 that there are any customer requirements that PMC can't
25 meet.

1 On the issue of the joint Venture negotiations,
2 PMC is a world player in this business, and they talk with a
3 lot of companies around the world all the time about various
4 arrangements, including entering into joint ventures and
5 buying facilities around the world. We'll expand on the
6 Chinese situation in particular in the post-conference
7 brief. I think you'll find it to be a very interesting
8 story.

9 On another issue, Ms. Ni referred to the threat of
10 injury issue and said that there's really no reason for
11 Chinese producers to expand their exports to the United
12 States, but bear in mind a couple of things. One, that her
13 company increased its production capacity by 400 percent in
14 the last ten years. They can and will, as most companies
15 would if the business is there. Chinese exports, as you're
16 well aware, increased 150 percent during the period of
17 investigation, so they're not standing pat. That is for
18 certain.

19 Mr. Perry made a few points. The recession caused
20 the injury. As you will note from the confidential data,
21 though, there were real problems during the economic boom
22 period when business was great, and you'll see from the
23 confidential data what was happening to PMC's saccharin
24 operation during that time.

25 They argued demand is not increasing. That's

1 certainly not our experience and based upon the data that
2 PMC has available to it. The consumption of the product
3 increased by about ten percent just during the period of
4 investigation. PMC is optimistic that it is going to
5 continue to increase. They want to stay in this business.

6 The issue about the Chinese simply displacing
7 Korean material and not U.S. material is just pure nonsense,
8 and the data shows that that's the case. The import market
9 share has increased substantially, and it's not simply one
10 foreign producer exchanging market share from another
11 foreign producer. It couldn't be clearer from the data.

12 Aspartame price declines have caused saccharin
13 price declines. Aspartame is not a substitute for
14 saccharin, and I think we'll provide some more information
15 in the brief on this issue and the whole issue of blending
16 and the effect that blends have on the pricing of the
17 product.

18 Chinese producers are better equipped, Mr. Perry
19 says, to supply saccharin on a global basis. It's all about
20 price. PMC can and does supply to anybody where the price
21 can be met. PMC sells a lot of products globally, and they
22 know how to market saccharin, as well as other products.

23 We'll deal a little bit more with the issue of
24 blending, but the point of the blending is that there isn't
25 any particular sweetener that can stand on its own. If the

1 relative pricing between, for example, aspartame and
2 saccharin changed dramatically, you still wouldn't have
3 products that would go exclusively to one sweetener or
4 another sweetener for the reasons that we have explained.

5 It's because a certain product is being produced
6 with a certain taste, and the relative pricing becomes less
7 important when you're trying to sell the consumer a product
8 as long as these products are in the same relative ballpark.
9 I mean, if it is a 1,000 to one price differential perhaps
10 so, but in the real life arena that we're talking about that
11 just doesn't happen.

12 There was reference to Suzhou's large herbicide
13 customer on the insoluble saccharin. This was a very
14 interesting observation because we know who they're talking
15 about. It's one of PMC's major customers, and it's a
16 situation where based upon the Chinese price PMC is losing
17 business to the Chinese producer.

18 Thank you very much. We appreciate your time and
19 attention this morning.

20 MR. FEATHERSTONE: Thank you, Mr. Hartquist.

21 Mr. Perry?

22 MR. PERRY: I just want to make a couple of quick
23 comments to respond to Skip Hartquist's points. PMC may be
24 a global player in other chemicals, but it has no saccharin
25 production outside the United States. That's important to

1 know.

2 Basically he says it's Chinese players, but it's
3 all about price. I beg to differ. It's all about
4 competition. What we have is a global marketplace right
5 now, and we have huge multinationals who can shift
6 production from one country to another, depending on the
7 prices of the raw material goods. That happens. Frankly, I
8 would love to see a Commission study on this.

9 This just happened big time in indigo. We know
10 because the Commission put an Order on indigo, and I've
11 talked to my clients in China about doing a review. They
12 said no, no, no. We're just shipping down to Mexico. They
13 moved all of their production down to Mexico.

14 Is that really what we're talking about here? I
15 think that does go into the economic analysis. If you raise
16 the price of saccharin to a certain point, when does the
17 demand go down? That's something that the Commissioners do
18 look at.

19 I think that, you know, the question is if China
20 disappears, will the price competition in the United States
21 disappear? The answer is no because Korea is just going to
22 show up. I mean, the Koreans are there, and, frankly,
23 recently one of them is becoming a very strong presence and
24 took away business from the Chinese, which surprised a lot
25 of our guys.

1 What you have is a global marketplace, and what
2 PMC seems to want is a price rise in the United States
3 exclusive to the United States so we have everything
4 sticking up and nothing will change, and we'll just get more
5 business and we'll have higher prices. It's not going to
6 happen because what's happening is production will shift.

7 These are huge, multinational companies that are
8 players all over the world. As I said before, with that
9 kind of volume they can get low prices. The price
10 competition is fierce, but the point we're trying to make
11 here is it's not coming because they're dumping product.
12 It's coming because we have tremendous price competition
13 from the customers who are competing fiercely at the
14 downstream levels, so they're competing against their
15 competitors, too.

16 How is it going to affect all of them? This is
17 not a push from China. This is a pull from the customers
18 and the fact that you have fierce, fierce competition and
19 changes in competition. I think the biggest change in
20 competition may be the internet. We know it's all of a
21 sudden become tremendously transparent. Look at E-bay. You
22 can sell anything anywhere.

23 You know, you're talking about a global
24 marketplace now because of the internet. As a result,
25 you've got intense competition, competition that's even

1 fiercer. If you can't compete on a global basis, you're
2 gone. We have one saccharin plant that PMC has in the
3 United States and nothing outside the United States. That
4 makes it difficult.

5 What we really want to do is yes, there has been
6 an increase in production capacity at Suzhou. I know that.
7 Also during the same time there have been a number of
8 Chinese factories that have closed. The less efficient ones
9 have closed. The more efficient ones expand. I think
10 that's just the nature of the situation.

11 Aspartame. I think that the argument that
12 aspartame is having no effect on prices of saccharin is just
13 malarkey. Even the Commission said this in the last
14 investigation. When prices of aspartame drop, prices of
15 substitute products are going to respond. In 1993-1994, it
16 was \$30. Now we're at \$10.

17 That drop in price in aspartame has got to have an
18 effect on saccharin, especially because if you think about
19 it there still is the perception out there by the consumers,
20 which I think the Commission to some extent denied in the
21 last review. They said the warning isn't that important, if
22 you read the decision in 1993-1994.

23 Here they're saying we've got an upsurge in demand
24 because the warning label has been taken off. Well, the
25 problem with the warning label is PMC is now saying yes, the

1 warning label and the lack of a warning label does have a
2 direct impact on our market. The Commission in the last go-
3 round denied that.

4 We're also saying something else, which is more
5 important. Yes, the warning label was lifted, but how many
6 people know about it? The answer is not many. There still
7 is the perception that saccharin causes little rats to fall
8 dead, and that makes it very difficult for the consumers
9 here to use saccharin because people think about it. I
10 mean, my partner said it to me two days ago.

11 There's a perception especially among our
12 generation. I mean, Wayne mentioned to me before that maybe
13 this will change when there's another generation of people
14 that come through, you know, the children of the baby
15 boomers that don't have that preconception about saccharin,
16 but now the conception is there that it causes cancer, even
17 though it's an absolutely false statement.

18 I think that's fine for me at this point.

19 MR. FEATHERSTONE: Thank you, Mr. Perry.

20 Just a couple of quick reminders. The deadline
21 for the submission of corrections to the transcript and
22 briefs in this investigation is next Tuesday, August 6. If
23 briefs contain business proprietary information, a non-
24 proprietary version is due the following day, August 7.

25 The Commission has scheduled its vote on the

1 investigation for August 22 at 2:00 p.m. and will report its
2 determination to the Secretary of Commerce August 26.
3 Commissioners' opinions will be transmitted to Commerce and
4 placed in the public record a week later on September 3.

5 Thank you again for your participation. This
6 conference is adjourned.

7 (Whereupon, at 12:46 p.m. the preliminary
8 conference in the above-entitled matter was concluded.)

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CERTIFICATION OF TRANSCRIPTION

TITLE: Saccharin From China
INVESTIGATION NO.: 731-TA-1013 (Preliminary)
HEARING DATE: August 1, 2002
LOCATION: Washington, D.C.
NATURE OF HEARING: Preliminary Conference

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: August 1, 2002

SIGNED: LaShonne Robinson
Signature of the Contractor or the
Authorized Contractor's Representative
1220 L Street, N.W. - Suite 600
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Lorenzo Jones
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Gabriel Rosenstein
Signature of Court Reporter